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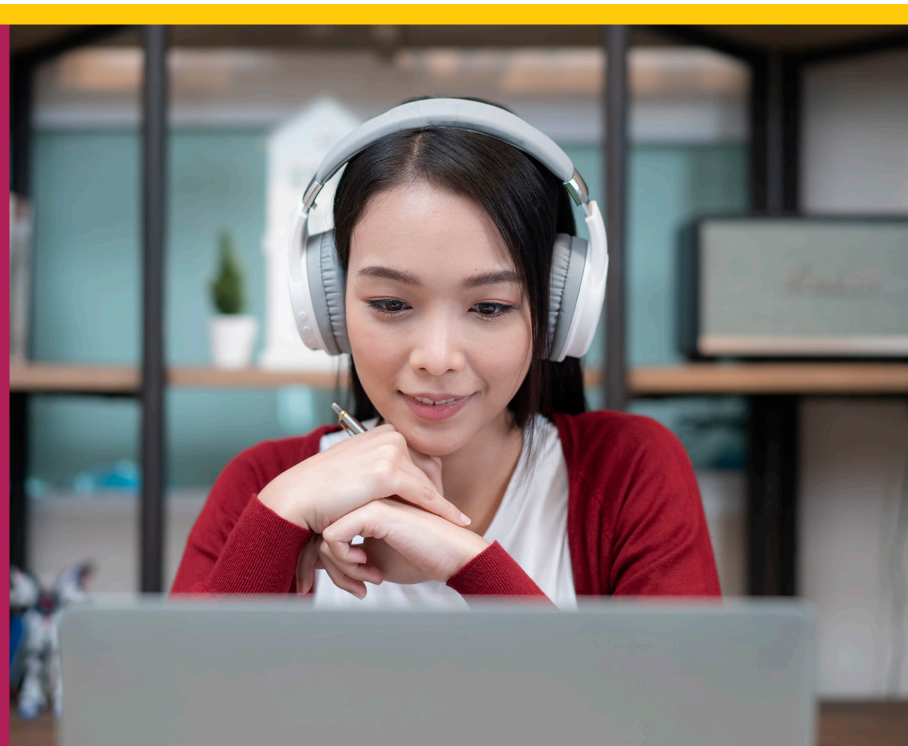
Crafting & Executing Strategy

23rd edition

Thompson | Peteraf
Gamble | Strickland



A Letter from the Authors

THANK YOU for your loyalty and support over the past 35 years. Your feedback and advice has shaped our products and technology to ensure Crafting & Executing Strategy: The Quest for Competitive Advantage remains the benchmark by which all other strategic management products are measured. We are indebted to all of our reviewers and users who have helped us blaze new trails and advance the discipline of strategic management.

The new 23rd edition provides the most up-to-date discussion of core concepts and analytical tools. The revision includes new, fresh examples of familiar companies, Illustration Capsules, Assurance of Learning exercises along with Exercises for users of one of the two simulations tied to our texts. It maintains the attributes that have made it the most teachable text on the market. Key differentiators include our coverage of:

1. **Clearest discussion of business models.** We introduce this often-misunderstood concept in the first chapter, define it precisely, and present follow-up discussions in the next eight chapters to drive the concept home.
2. **Integrated positioning theory and resource-based theory.** We highlight that a company's strategy must be matched not only to its external market circumstances, but also to its internal resources and competitive capabilities.
3. **The value-price-cost framework.** We focus on how companies conduct business and create economic value and competitive advantage using a simple framework model.
4. **Cooperative strategies and the role that interorganizational activity can play in the pursuit of competitive advantage.** The topics of the value net, ecosystems, strategic alliances, licensing, joint ventures, and other types of collaborative relationships are featured prominently throughout.
5. **International strategies, in all their dimensions, in an increasingly connected, global world.** The scope of a company's activities brings home to students the connection between the topic of international strategy with other topics concerning firm scope, such as multibusiness (or corporate) strategy, outsourcing, insourcing, and vertical integration.
6. **Business ethics, corporate social responsibility, and environmental sustainability in a stand-alone chapter.** By devoting an entire chapter to these issues, we highlight their importance in all strategic decisions.

7. **Unrivaled cases from the standpoints of student appeal, teachability, and suitability.** Our 27 cases include the very latest data and relevant companies, as well as include teaching notes in the Instructor's Manual that makes it effortless to select cases each term that will capture the interest of students from start to finish. There is tight linkage between the content of the chapters and the cases.

8. **Tightly linked teaching and learning resources available in Connect®.** McGraw-Hill Connect® is a personalized teaching and learning tool powered by adaptive technologies so your students learn more efficiently, retain more, and achieve better outcomes. We've created exercises that are assignable to help students move from simple memorization and comprehension to concept application.

9. **Widely used strategy simulations—The Business Strategy Game and GLO-BUS.** These engaging simulations give you an unmatched capability to employ a text-case-simulation model to develop student competencies and assess student mastery of workplace skills.

We thank you for your support and consideration,

Arthur A. Thompson
University of Alabama

Margaret A. Peteraf
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John E. Gamble
Texas A & M University-Corpus Christi

A.J. Strickland III
University of Alabama

Crafting & Executing Strategy: Concepts and Cases
23rd edition

Brief Table of Contents

Our Concepts & Cases Version includes ALL of the cases listed in PART II. The Concepts Version DOES NOT include the cases.

Crafting & Executing Strategy, 23rd edition

PART 2

Cases in Crafting and Executing Strategy

Section A: Crafting Strategy in Single-Business Companies

1. Airbnb in 2020
2. Competition in the Craft Beer Industry in 2020
3. Costco Wholesale in 2020: Mission, Business Model, and Strategy
4. Ford Motor Company: Will the Company's Strategic Moves Restore its Competitiveness and Financial Performance?
5. Macy's, Inc.: Will Its Strategy Allow It to Survive in the Changing Retail Sector?
6. TOMS Shoes: Expanding Its Successful One For One Business Model
7. Lululemon Athletica's Strategy in 2020: Is the Recent Growth in Retail Stores, Revenues, and Profitability Sustainable?
8. Under Armour's Strategy in 2020: Can It Revive Sales and Profitability in Its Core North American Market
9. Spotify in 2020: Can the Company Remain Competitive?

10 Beyond Meat, Inc.

11. Netflix's 2020 Strategy for Battling Rivals in the Global Market for Streamed Video Subscribers
12. Twitter Inc. in 2020
13. Yeti in 2020: Can Brand Name and Innovation Keep it Ahead of the Competition?
14. GoPro in 2020: Have its Turnaround Strategies Failed?
15. Publix Super Markets: Its Strategy in the U.S. Supermarket and Grocery Store Industry
16. Tesla's Strategy in 2020: Can It Deliver Sustained Profitability?
17. Unilever's Purpose-led Brand Strategy: Can Alan Jope Balance Purpose and Profits?
18. Dominos Pizza: Business Continuity Strategy during the Covid-19 Pandemic
19. Burbank Housing: Building from the Inside Out
20. Boeing 737 MAX: What Response Strategy is Needed to Ensure Passenger Safety and Restore the Company's Reputation?
21. The Walt Disney Company: Its Diversification Strategy in 2020
22. Robin Hood

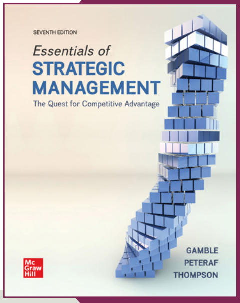
Section B: Crafting Strategy in Diversified Companies

23. Southwest Airlines in 2020: Culture, Values, and Operating Practices
24. Uber Technologies in 2020: Is the Gig Economy Labor Force Working for Uber?

Section C: Implementing and Executing Strategy

25. Starbucks in 2020: Is the Company on Track to Achieve Attractive Growth and Operational Excellence?
26. Nucor Corporation in 2020: Pursuing Efforts to Grow Sales and Market Share Despite Tough Market Conditions
27. Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

Guide to Case Analysis



A briefer *Essentials of Strategic Management* version is also available. It includes 10 chapters and 12 cases.

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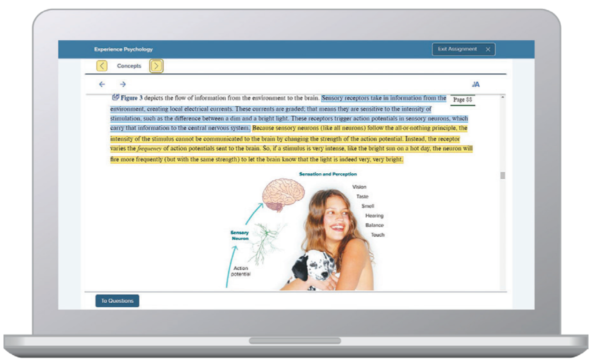

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> ***"I really liked this app—it made it easy to study when you don't have your text-book in front of you."***
>
> \- Jordan Cunningham,
> Eastern Washington University

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We hear you... most students don't come to class prepared. With Connect's SmartBook 2.0 and its powerful personalized learning experience, you can give students the tools to change that. Have students learn the basics before they come to class, so you can be the educational expert that leads students to more "aha moments". With Connect you and your students get:

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SmartBook 2.0 helps students come to class better prepared so you can transform your class time from dull definitions to dynamic debates.

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Asset Alignment with Bloom's Taxonomy

Thompson | Peteraf | Gamble | Strickland,
Crafting & Executing Strategy 23e

We Take Students Higher

As a learning science company, we create content that supports higher order thinking skills. Within McGraw Hill Connect®, we tag content accordingly so you can filter your search, assign it, and receive reporting on it. These content asset types can be associated with one or more levels of Bloom's.

The chart below shows a few of the key assignable business assets with Connect aligned with Bloom's Taxonomy. Take your students higher by assigning a variety of applications, moving them from simple memorization to concept application.

Higher Order Thinking Skills

	SmartBook® 2.0	McGraw Hill Book & ReadAnywhere app	Whiteboard Video Cases	Application-Based Activities	Case Analysis	Case Exercises	Assurance of Learning Exercises	Simulation Exercises	Auto-Scored Writing Assignments
CREATE							✓	✓	✓
EVALUATE				✓	✓	✓	✓	✓	✓
ANALYZE				✓	✓	✓	✓	✓	✓
APPLY			✓	✓	✓	✓	✓	✓	✓
UNDERSTAND	✓	✓	✓	✓	✓	✓	✓	✓	✓
REMEMBER	✓	✓	✓	✓	✓	✓	✓	✓	✓

Lower Order Thinking Skills

SmartBook 2.0

Smartbook 2.0 is an adaptive learning solution that provides personalized learning to individual student needs, continually adapts to pinpoint knowledge gaps, and focuses learning on concepts requiring additional study. It fosters more productive learning, takes the guesswork out of what to study, and helps students better prepare.

McGraw Hill eBook & ReadAnywhere App

The eBook is convenient and easy for students to access, whether on their laptop, smartphone, or tablet. Search, highlight, take notes, listen on the go, and study anytime, anywhere with the ReadAnywhere app even if they're offline or in your classroom.

Whiteboard Video Cases

These cases offer brief, dynamic, student-centered introductions, illustrations, and animations to guide students through challenging concepts.

Application-Based Activities

These highly interactive activities challenge students to use problem-solving skills and apply their knowledge to realistic scenarios. Students are placed in a specific role in which they are required to apply multiple concepts and make data-informed decisions. They progress from understanding basic concepts to analyzing complex scenarios and solving problems. These "mini sims" often involve multiple decision-making paths—a "Choose Your Own Adventure"—and allow students to see the impact of their decisions immediately.

Case Analyses

Case Analyses challenge students to analyze real-world business dilemmas, make sense out of the situation, and derive a plan of action. This fully immersive approach fosters students' ability to think critically and be better prepared for the real world. Thought-provoking discussion questions check students' ability to apply the material.

Case Exercises

Case Exercises ask students to do strategic thinking and strategic analysis to arrive at pragmatic, analysis-based recommendations for improving company performance. Exercises have multiple components and include calculating assorted financial ratios to assess a company's financial performance and balance sheet strength, identifying a company's strategy, providing five-forces and driving-forces analysis, conducting a SWOT analysis, and recommending actions to improve company performance.

Comprehension Cases

Comprehension Cases ask students to review chapter concepts and apply them to real-world companies and situations. Providing yet another way to enhance students' critical thinking skills, these cases test understanding of text and, in certain instances, graphics that require students to analyze, evaluate, and disseminate information.

Assurance of Learning Exercises

A set of Assurance of Learning Exercises at the end of each chapter link to specific Learning Objectives appearing at the beginning of each chapter and highlighted throughout. Two of these exercises can be completed in Connect.

Simulation Exercises

A set of Exercises for Simulation Participants at the end of each chapter go a step further for instructors incorporating either the BSG or GLO-BUS simulation software package. These exercises can be completed in Connect.

Auto-Scored Writing Assignments

McGraw Hill's new Writing Assignment tool delivers a learning experience that improves students' written communication skills and conceptual understanding with every assignment. Assign, monitor, and provide feedback on writing more efficiently and grade assignments. It promotes student's critical thinking with auto-scored writing prompts, helping to save you time providing feedback and grading.

The Business Strategy Game (BSG) & GLO-BUS

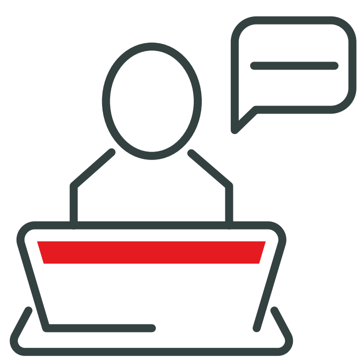
Strategic Management Competition-Based Simulations
Perfect for In-Person or Online Classes

McGraw Hill has a long-standing partnership with the best-selling, competition-based, online strategy simulations on the market, *The Business Strategy Game (BSG) and Glo-Bus*, to help students bridge theory and practice.

In these time-tested, trusted simulations, students are assigned to teams and compete head-to-head against each other and make business decisions that mirror real-life. **In BSG, students run athletic footwear companies that produce and market both branded and private-label footwear. In GLO-BUS, students operate companies that design, assemble, and market wearable video cameras and sophisticated camera-equipped copter drones.** Each standalone version is available for $44.95.

In both simulations, companies compete in a global market arena, selling their products in four geographic regions— Europe-Africa, North America, Asia-Pacific, and Latin America. Each management team is called upon to craft a strategy for their company and make decisions relating to production operations, workforce compensation, pricing and marketing, social responsibility/citizenship, and finance.

Company co-managers are held accountable for their decision making. Each company's performance uses the balanced scorecard approach on the basis of earnings per share, return on equity investment, stock price appreciation, credit ratings, and image and brand rating. Rankings of company performance, along with industry and company statics will help teams make strategic adjustments for the next competitive round.



Go to https://bsg-online.com or https://glo-bus.com to create an account, learn more, and get a demo.

Any well-conceived, well-executed, competitive approach is capable of succeeding, provided it is not overpowered by the strategies of competitors or defeated by the presence of too many copycat strategies that dilute its effectiveness.

All course materials are accessed through the same gateway - the Instructor Center for you and the Corporate Lobby screen for students.

Key Features

☑ **Online Availability 24/7/365**

☑ **Windows/Mac Compatability**

☑ **Built-in Collaboration Tools** enable each student team to have online group meetings to talk, work from the same screen, see projected outcomes of trial decision entries, and arrive at consensus actions to take — in person meetings are unnecessary. Instructors can easily join these meetings from their own PCs as well.

☑ **Automatic Grading** – Company performances are scored automatically based on EPS, return on equity, stock price credit rating, and image rating.

☑ **A Variety of Optional Assignments including:**

- **Built-In Quizzes**
- **Peer Evaluations**
- **Three-Year Strategic Plan**
- **A Company Presentation**, at the conclusion of the simulation, enables each team to prepare PPTs to describe their strategy and summarize their company's performance to the class, instructor, or outside board of directors.
- **Learning Assurance Reports**, the first provides empirical data on 9 measures of proficiency, business know-how, and decision-making skills; the second is a post-simulation comprehensive exam ranking how well your students performed vis-à-vis students playing the simulation worldwide over the past 12 months.

We also have a **BSG/GLO-BUS Valuepak offer** that consists of the simulation and concise, e-text for $99.95. It includes 12 chapters and a 276-page digital text of *STRATEGY: Core Concepts and Analytical Tools,* 6th edition (2020-2021) by Arthur Thompson. You can add optional cases from their Library for $5 for each case. Click here to learn more about the Valuepak offer.

Go to https://bsg-online.com or https://glo-bus.com to create an account, learn more, and get a demo.

How the Two Simulations Differ

	The Business Strategy Game (BSG)	GLO-BUS
Industry Setting	Companies begin producing branded and private-label **athletic footwear** in two plants, one in North America and one in Asia. They have the option to establish production facilities in Latin America and Europe-Africa.	Companies assemble wearable, miniature **cameras and drones** of varying designs and performance capabilities at a Taiwan facility and ship finished goods directly to buyers in North America, Asia-Pacific, Europe-Africa, and Latin America.
Market Segments	12 market segments: online sales, sales to brick-and-mortar retailers, and private-label sales to customers in North America, Latin America, Europe-Africa, and the Asia-Pacific.	8 market segments—sales to camera retailers and online sales to drone buyers in each of the world's four geographic regions.
Operations	Up to four plants (one in each geographic region).	A single plant facility that assembles both cameras and drones.
Distribution	Each BSG company operates a distribution center in each geographic region and makes up to five shipping decisions per geographic region to supply customers and manage regional inventories.	There are no finished goods inventories and distribution centers to operate because all units produced are immediately shipped to buyers.
Production and assembly operations	Up to 11 production-related decisions and 6 workforce compensation decisions per plant; max of 4 plants.	Up to 10 product design decisions for cameras and 10 for drones and 8 decision entries for assembly operations and workforce compensation.
Pricing and marketing	Up to 9 decisions for each of 4 geographic regions, plus bids to sign celebrities to endorse company brands (2 decision entries per bid).	7 decisions for cameras and 5 for drones for each of the four geographic regions.
Social responsibility and corporate citizenship	Up to 8 decisions	Up to 6 decisions
Finance	Up to 8 decisions	Up to 8 decisions
Time Requirements for Students	BSG is our most robust simulation. About 2 ½ hours per round.	About 2 hours per round because company operations are simpler and involve fewer decisions.

***Recommendations:** Company management teams of 3-4 students are optimum, with anywhere from a minimum of 4 to a maximum of 12 companies in a single industry. Divide classes larger than 35-45 students into 2 or more industries. Schedule 2 practice rounds for students to learn how things work.

Go to https://bsg-online.com or https://glo-bus.com to create an account, learn more, and get a demo.

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Affordability & Outcomes

Our Approach

Our approach preserves academic freedom, so you can select the materials that are right for you and your students. Highlights of our program include:

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Inclusive Access	Inclusive Access lets students pay for their course materials as part of their tuition and course fees. That means more convenience and Day One access, which has been proven to boost student retention.
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Remote proctoring and browser locking capabilities seamlessly integrate within Connect to offer more control over the integrity of online assessments. Instructors can enable security options that restrict browser activity, monitor student behavior, and verify the identity of each student. Instant and detailed reporting gives instructors an at-a-glance view of potential academic integrity concerns, supported by evidence.

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Control level – Moderate	✓	✓
Prevent the use of other monitors	✓	✓
Control level – Strict	✓	✓
30 seconds	✓	✓
15 seconds		✓
0 seconds		✓
Control content import or export		
Disable Clipboard	✓	✓
Disable Right-Click	✓	✓
Disable Printing	✓	✓
Block Downloads		✓
Prevent tampering		
Disable Other Browser Extensions		✓
REMOTE PROCTORING		
Record Video	✓	✓
Record Audio		✓
Record Screen		✓
Record Web Traffic		✓
Environment Scan		
Only at Start		✓
Intelligent		✓
VERIFICATION OPTIONS		
Verify Video		✓
Verify Audio		✓
Verify Desktop		✓
ID Verification (auto)		✓
Integrity Agreement		✓
TOOLS		
Calculator		✓
Whiteboard		✓

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Easy Set-Up Within Connect

Proctorio is easy to turn on within McGraw-Hill Connect® through the policy settings when creating an assessment. Instructors denote which level of proctoring and features to enable for students, and students will receive instructions upon entering the assessment. After the student finishes the proctored assessment, reporting will be available along with any settings the instructor enabled.

BROWSER LOCKING CAPABILITIES

Browser locking capabilities allow the instructor to control the assessment environment to increase the security during the assessment.

CONTROL ACCESS TO OTHER APPS AND WEBSITES
Controls whether students can access other tabs or programs

DISABLE CLIPBOARD
Blocks students from using copy, cut, and paste

DISABLE PRINTING
Prevents students from printing the assessment via keyboard shortcut or right-click and print

DISABLE EXTENSIONS
Prevents students from using other browser extensions

PREVENT THE USE OF OTHER MONITORS
Prevents students from having multiple monitors

DISABLE RIGHT-CLICK
Prevents students from right-clicking within the assessment window

BLOCK DOWNLOADS
Prevents students from downloading anything during the assessment

REMOTE PROCTORING

Recording Options settings control the information that is recorded during the exam, allowing the instructor to control the assessment environment.

RECORD VIDEO
Records video from the student's webcam

RECORD SCREEN
Records the student's screen

ENVIRONMENT SCAN
Records the student's environment

RECORD AUDIO
Records audio from the student's microphone

RECORD WEB TRAFFIC
Records the web pages the student visits

Contact your rep today at mhhe.com/rep to learn more.

Remote Proctoring & Verification

VERIFICATION OPTIONS

Verification options include settings that help ensure students are who they say they are, their hardware is working, and they are reminded of academic integrity policies.

VERIFY CAMERA
Ensures the webcam is properly working and the student's face is visible

VERIFY AUDIO
Ensures the student's audio is working

VERIFY SCREEN
Ensures the student's screen is being correctly recorded

ID VERIFICATION
Aids the instructor to help authenticate the student's identity by having the student show an ID card that is automatically captured and stored

INTEGRITY AGREEMENT
Has the student digitally sign an integrity agreement before the assessment

TOOLS

Tools that students can use during the assessment.

CALCULATOR
Enable a basic or scientific calculator during the exam

WHITEBOARD
Enable a whiteboard during the assessment, where students can scribble their thoughts

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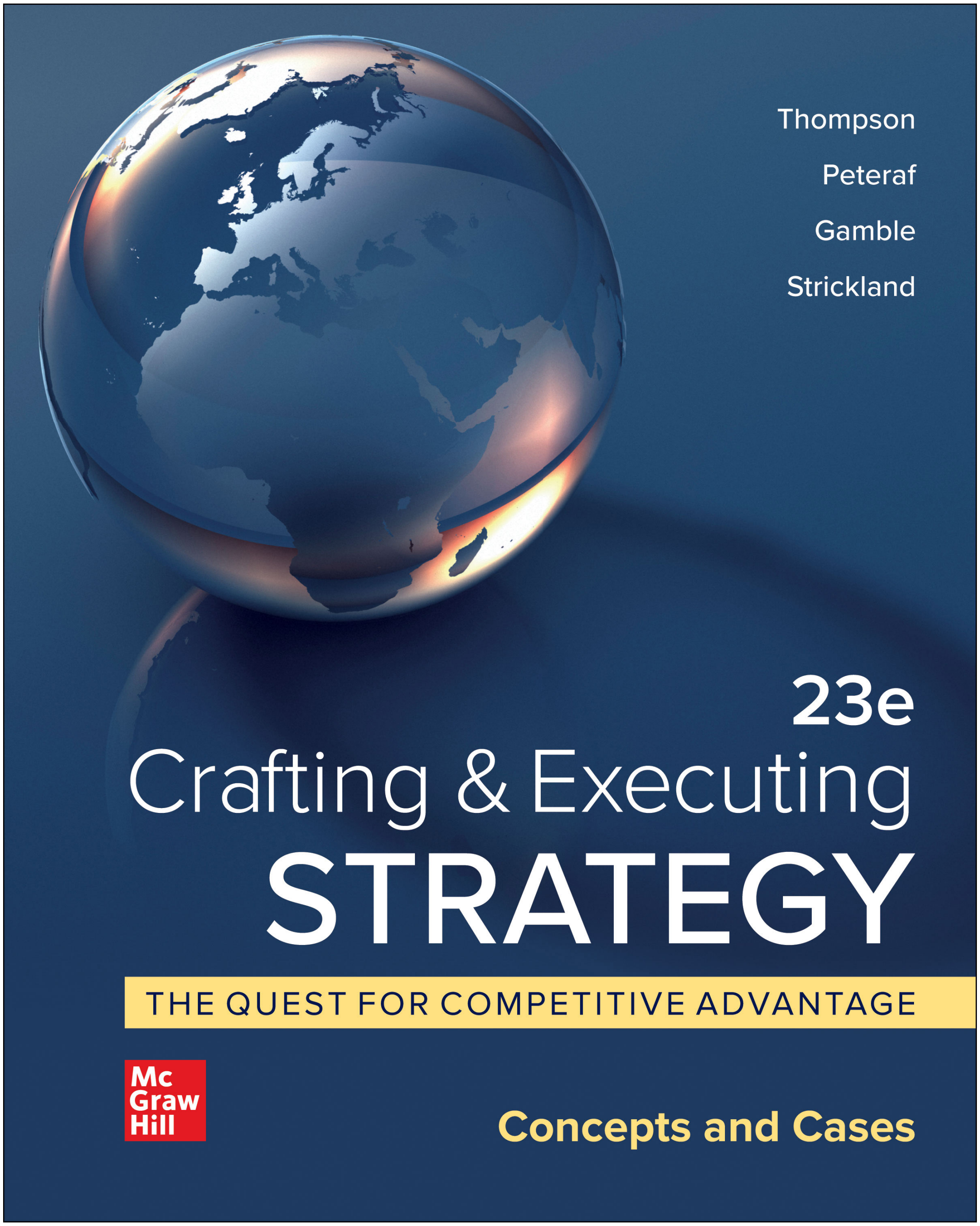
Sample Chapter Preview



Preview Chapter 3:
Crafting & Executing Strategy: The Quest for Competitive Advantage Concepts and Cases, 23rd edition.

chapter 3

Evaluating a Company's External Environment

Learning Objectives

After reading this chapter, you should be able to:

LO 3-1 Recognize the factors in a company's broad macro-environment that may have strategic significance.

LO 3-2 Use analytic tools to diagnose the competitive conditions in a company's industry.

LO 3-3 Map the market positions of key groups of industry rivals.

LO 3-4 Determine whether an industry's outlook presents a company with sufficiently attractive opportunities for growth and profitability.

Fanatic Studio/Getty Images

No matter what it takes, the goal of *strategy* is to beat the competition.

Kenichi Ohmae—*Consultant and author*

Companies that solely focus on competition will die. Those that focus on value creation will thrive.

Edward de Bono—*Author and consultant*

Continued innovation is the best way to beat the competition.

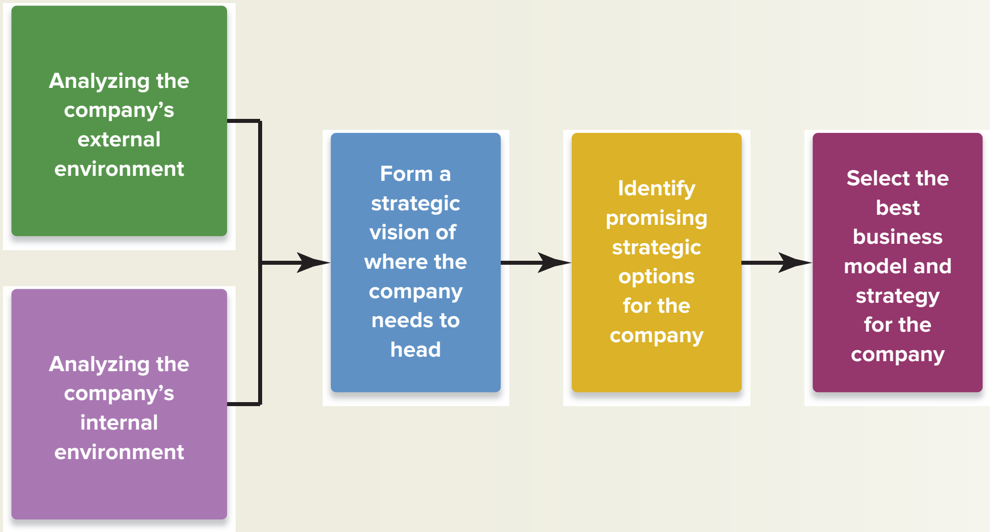
Thomas A Edison—*Inventor and Businessman*

In Chapter 2, we learned that the strategy formulation, strategy execution process begins with an appraisal of the company's present situation. Two facets of a company's situation are especially pertinent: (1) its external environment—most notably, the competitive conditions of the industry in which the company operates; and (2) its internal environment—particularly the company's resources and organizational capabilities.

Insightful diagnosis of a company's external and internal environments is a prerequisite for managers to succeed in crafting a strategy that is an excellent *fit* with the company's situation—the first test of a winning strategy. As depicted in Figure 3.1, strategic thinking begins with an appraisal of the company's external and internal environments (as a basis for deciding on a long-term direction and developing a strategic vision). It then moves toward an evaluation of the most promising alternative business models, and strategies and finally culminates in choosing a specific strategy.

This chapter presents the concepts and analytic tools for zeroing in on those aspects of a company's external environment that should be considered in making strategic choices. Attention centers on the broad environmental context, the specific market arena in which a company operates, the drivers of change, the positions and likely actions of rival companies, and key success factors. In Chapter 4, we explore the methods of evaluating a company's internal circumstances and competitive capabilities.

FIGURE 3.1 From Analyzing the Company's Situation to Choosing a Strategy



ASSESSING THE COMPANY'S INDUSTRY AND COMPETITIVE ENVIRONMENT

Thinking strategically about a company's industry and competitive environment entails using some well-validated concepts and analytical tools to get clear answers to seven questions:

1. Do macro-environmental factors and industry characteristics offer sellers opportunities for growth and attractive profits?
2. What kinds of competitive forces are industry members facing, and how strong is each force?
3. What forces are driving industry change, and what impact will these changes have on competitive intensity and industry profitability?
4. What market positions do industry rivals occupy—who is strongly positioned and who is not?
5. What strategic moves are rivals likely to make next?
6. What are the key factors of competitive success?
7. Does the industry outlook offer good prospects for profitability?

Analysis-based answers to these questions are prerequisites for a strategy offering good fit with the external situation. The remainder of this chapter is devoted to describing the methods of obtaining solid answers to these seven questions.

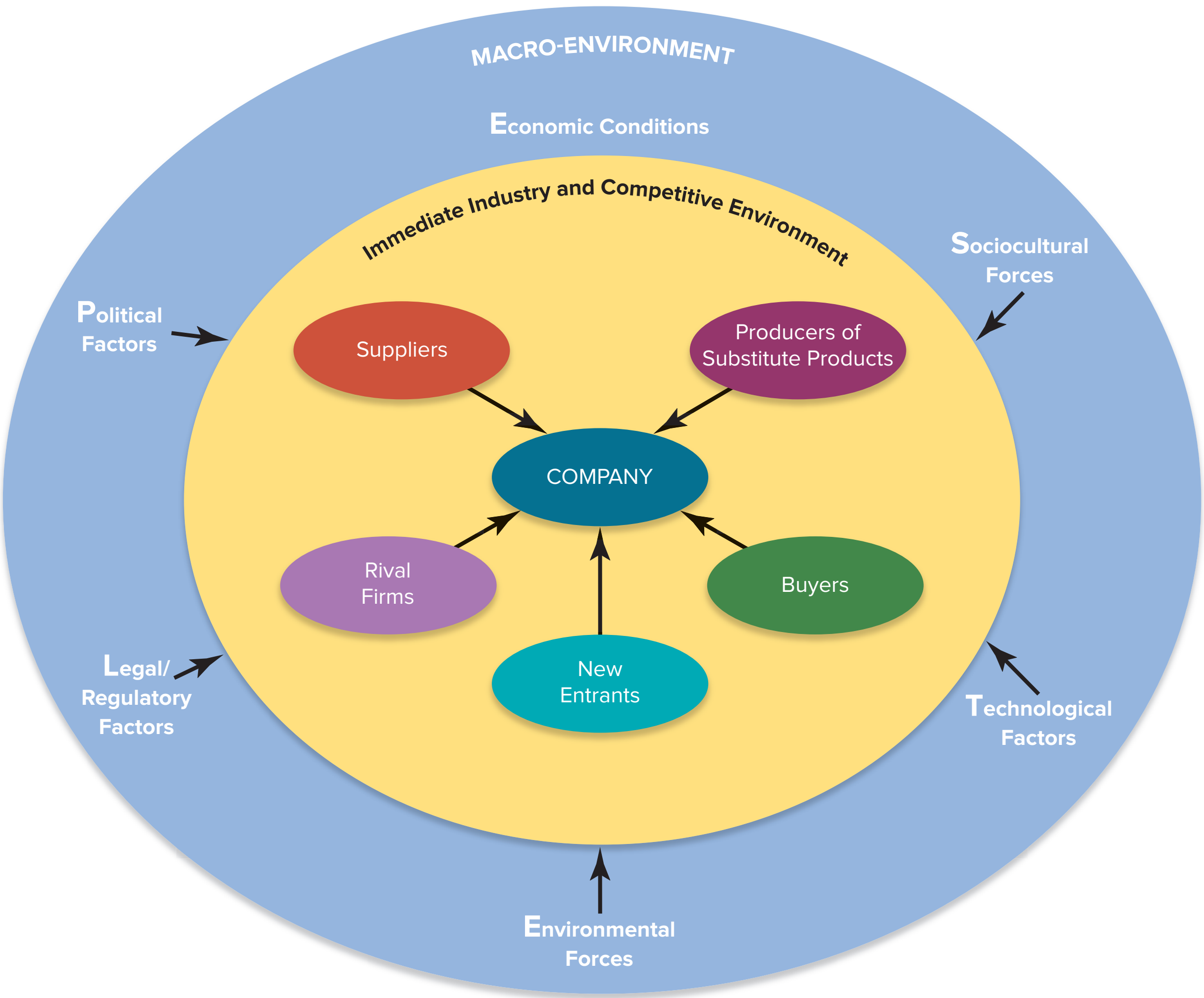
ANALYZING THE COMPANY'S MACRO-ENVIRONMENT

A company's external environment includes the immediate industry and competitive environment and a broader "macro-environment" (see Figure 3.2). This macro-environment comprises six principal components: political factors; economic conditions in the firm's general environment (local, country, regional, worldwide); sociocultural forces; technological factors; environmental factors (concerning the natural environment); and legal/regulatory conditions. Each of these components has the potential to affect the firm's more immediate industry and competitive environment, although some are likely to have a more important effect than others. An analysis of the impact of these factors is often referred to as **PESTEL analysis,** an acronym that

LO 3-1

Recognize the factors in a company's broad macro-environment that may have strategic significance.

FIGURE 3.2 The Components of a Company's Macro-Environment



serves as a reminder of the six components involved (Political, Economic, Sociocultural, Technological, Environmental, Legal/regulatory).

CORE CONCEPT

The **macro-environment** encompasses the broad environmental context in which a company's industry is situated.

Since macro-economic factors affect different industries in different ways and to different degrees, it is important for managers to determine which of these represent the most *strategically relevant factors* outside the firm's industry boundaries. By *strategically relevant,* we mean important enough to have a bearing on the decisions the company ultimately makes about its long-term direction, objectives, strategy, and business model. The impact of the outer-ring factors depicted in Figure 3.2 on a company's choice of strategy can range from big to small. Those factors that are likely to a bigger impact deserve the closest attention. But even factors that have a low impact on the company's business situation merit a watchful eye since their level of impact may change.

CORE CONCEPT

PESTEL analysis can be used to assess the strategic relevance of the six principal components of the macro-environment: **P**olitical, **E**conomic, **S**ocial, **T**echnological, **E**nvironmental, and **L**egal/Regulatory forces.

For example, when stringent new federal banking regulations are announced, banks must rapidly adapt their strategies and lending practices to be in compliance. Cigarette producers must adapt to new antismoking ordinances, the decisions of governments to impose higher cigarette taxes, the growing cultural stigma attached to smoking and newly emerging e-cigarette technology. The homebuilding industry is affected by such macro-influences as trends in household incomes and buying power, rules and regulations that make it easier or harder for homebuyers to obtain mortgages, changes in mortgage interest rates, shifting preferences of families for renting versus owning a home, and shifts in buyer preferences for homes of various sizes, styles, and price ranges. Companies in the food processing, restaurant, sports, and fitness industries have to pay special attention to changes in lifestyles, eating habits, leisure-time preferences, and attitudes toward nutrition and fitness in fashioning their strategies. Table 3.1 provides a brief description of the components of the macro-environment and some examples of the industries or business situations that they might affect.

TABLE 3.1 The Six Components of the Macro-Environment

Component	Description
Political factors	Pertinent political factors include matters such as tax policy, fiscal policy, tariffs, the political climate, and the strength of institutions such as the federal banking system. Some political policies affect certain types of industries more than others. An example is energy policy, which clearly affects energy producers and heavy users of energy more than other types of businesses.
Economic conditions	Economic conditions include the general economic climate and specific factors such as interest rates, exchange rates, the inflation rate, the unemployment rate, the rate of economic growth, trade deficits or surpluses, savings rates, and per-capita domestic product. Some industries, such as construction, are particularly vulnerable to economic downturns but are positively affected by factors such as low interest rates. Others, such as discount retailing, benefit when general economic conditions weaken, as consumers become more price-conscious.
Sociocultural forces	Sociocultural forces include the societal values, attitudes, cultural influences, and lifestyles that impact demand for particular goods and services, as well as demographic factors such as the population size, growth rate, and age distribution. Sociocultural forces vary by locale and change over time. An example is the trend toward healthier lifestyles, which can shift spending toward exercise equipment and health clubs and away from alcohol and snack foods. The demographic effect of people living longer is having a huge impact on the health care, nursing homes, travel, hospitality, and entertainment industries.

(continued)

TABLE 3.1 *(continued)*

Component	Description
Technological factors	Technological factors include the pace of technological change and technical developments that have the potential for wide-ranging effects on society, such as genetic engineering, nanotechnology, and solar energy technology. They include institutions involved in creating new knowledge and controlling the use of technology, such as R&D consortia, university-sponsored technology incubators, patent and copyright laws, and government control over the Internet. Technological change can encourage the birth of new industries, such as drones, virtual reality technology, and connected wearable devices. They can disrupt others, as cloud computing, 3-D printing, and big data solution have done, and they can render other industries obsolete (film cameras, music CDs).
Environmental forces	These include ecological and environmental forces such as weather, climate, climate change, and associated factors like flooding, fire, and water shortages. These factors can directly impact industries such as insurance, farming, energy production, and tourism. They may have an indirect but substantial effect on other industries such as transportation and utilities. The relevance of environmental considerations stems from the fact that some industries contribute more significantly than others to air and water pollution or to the depletion of irreplaceable natural resources, or to inefficient energy/resource usage, or are closely associated with other types of environmentally damaging activities (unsustainable agricultural practices, the creation of waste products that are not recyclable or biodegradable). Growing numbers of companies worldwide, in response to stricter environmental regulations and also to mounting public concerns about the environment, are implementing actions to operate in a more environmentally and ecologically responsible manner.
Legal and regulatory factors	These factors include the regulations and laws with which companies must comply, such as consumer laws, labor laws, antitrust laws, and occupational health and safety regulation. Some factors, such as financial services regulation, are industry-specific. Others affect certain types of industries more than others. For example, minimum wage legislation largely impacts low-wage industries (such as nursing homes and fast food restaurants) that employ substantial numbers of relatively unskilled workers. Companies in coal-mining, meat-packing, and steel-making, where many jobs are hazardous or carry high risk of injury, are much more impacted by occupational safety regulations than are companies in industries such as retailing or software programming.

As the events surrounding the coronavirus pandemic of 2020 made abundantly clear, there is a class of macro-level external factors that is not included as part of PESTEL analysis. This is the set of factors that occurs more irregularly and unpredictably, unlike the categories within PESTEL that can be expected to affect firms in an ongoing and more foreseeable manner. This additional set of factors can be thought of as **societal shocks** to the macro-environment; they include terrorism (whether by domestic or foreign agents), civil war, foreign invasion or occupation, and epidemics and pandemics. Societal shocks such as these also affect different industries and companies to varying degrees, but they are much harder for companies to anticipate and prepare for since they often begin with little warning. The coordinated terrorist attacks by al-Qaeda against the United States now referred to as 9/11 (since they occurred on September 11, 2001) offer an example. These attacks had a significant economic impact, not only within the United States, but on world markets as well. New York City's businesses suffered enormously, particularly those located

ILLUSTRATION CAPSULE 3.1

The Differential Effects of the Coronavirus Pandemic of 2020

While the world had suffered through a number of other pandemics, including the Spanish Flu (which caused somewhere between 20 to 50 million deaths in 1918–1919), the Coronavirus pandemic of 2020 was predicted to be even more devastating. Not only was the world now more interconnected due to globalization, but the disease causing the pandemic, known as Covid-19, was easily transmissible. By April 1, 2020, there were already more than 31,000 deaths worldwide, despite the fact that the disease had not yet peaked in some of the world's most populous countries.

The virus was new to the world and identified as such in early January, 2020. First appearing in Wuhan, a Chinese city of 11 million, it spread around the globe rapidly, reaching at least 170 countries by the end of March. Different countries were affected by the pandemic at different rates and handled the crisis in different ways. Nations that were particularly hard hit by Covid-19 include China, Italy (with 1/3 of the deaths as of April 1, 2020), Spain, France, Iran, and the United States. Italy's high death rate may be explained in part due to demographics, since its much older population was more susceptible to the disease. But in contrast to South Korea, which utilized extensive testing to identify and control the spread of the disease, Italy failed to test widely. The United States also found itself with insufficient test kits to implement South Korea's strategy, a situation exacerbated by the Trump administration's downplaying the seriousness of the threat until March.

Shutterstock / theskaman306

The economic impact of the pandemic was catastrophic, despite a $2 trillion U.S. fiscal stimulus package and similar measures elsewhere designed to combat its economic consequences. Emerging markets seemed destined to absorb much of the hit, as international investment dried up, tourism collapsed, and demand for commodities fell. But even wealthy nations were not immune from dire consequences, although different sectors and industries were affected to varying degrees. In the United States, the hospitality and transportation industries were hard hit, along with retail, oil and gas, live sports and other forms of entertainment. Small businesses and low-margin industries, with little ability to weather a significant downturn, were particularly vulnerable. Some industries, such as health care, online retail, and delivery services found themselves facing demand in excess of their capabilities, especially in light of supply chain breakdowns. A number of large companies responded to the crisis by switching to the production of supplies needed for managing the crisis. GM, Ford, and other automakers aided the efforts to produce critically needed ventilators, while distilleries such as Tito's Handmade Vodka and Dillon's Distillery began making hand sanitizers. Fashion companies, such as Inditex (with its Zara brand) and Los Angeles Apparel, turned their production capabilities toward making hospital gowns and face masks. Virtually no company was unaffected by the pandemic, but those which quickly adopted practices to remain nimble, control costs, minimize job losses, support their workers and suppliers, and join in the effort to combat the crisis were best positioned to weather it.

Sources: "Timeline: How the new coronavirus spread, Aljazeera news, March 29, 2020; "These companies are switching gears to help address coronavirus shortages", by Chloe Hadavas, Slate, March 23, 2020; SlateStatista.com (accessed April 1, 2020).

within and nearby the World Trade Center complex. Industries suffering an outsized effect include the airline industry, which had to cut back travel capacity by nearly 20%, and the export industry. Illustration Capsule 3.1 illustrates how another such societal shock—the coronavirus pandemic of 2020—affected industries, businesses, geographies, and countries differentially.

As company managers scan the external environment, they must be alert for potentially important outer-ring developments (whether in the form of societal shocks or among the components of PESTEL analysis), assess their impact and influence, and adapt the company's direction and strategy as needed. However, the factors in a company's environment having the *greatest* strategy-shaping impact typically pertain to the company's immediate industry and competitive environment. Consequently, it is on a company's industry and competitive environment (depicted in the center of Figure 3.2) that we concentrate the bulk of our attention in this chapter.

ASSESSING THE COMPANY'S INDUSTRY AND COMPETITIVE ENVIRONMENT

LO 3-2

Use analytic tools to diagnose the competitive conditions in a company's industry.

After gaining an understanding of the industry's general economic characteristics, attention should be focused on the competitive dynamics of the industry. This entails using some well-validated concepts and analytic tools. These include the five forces framework, the value net, driving forces, strategic groups, competitor analysis, and key success factors. Proper use of these analytic tools can provide managers with the understanding needed to craft a strategy that fits the company's situation within their industry environment. The remainder of this chapter is devoted to describing how managers can use these tools to inform and improve their strategic choices.

The Five Forces Framework

The character and strength of the competitive forces operating in an industry are never the same from one industry to another. The most powerful and widely used tool for diagnosing the principal competitive pressures in a market is the *five forces framework.*[1] This framework, depicted in Figure 3.3, holds that competitive pressures on companies within an industry come from five sources. These include (1) competition from *rival sellers,* (2) competition from *potential new entrants* to the industry, (3) competition from producers of *substitute products,* (4) *supplier* bargaining power, and (5) *customer* bargaining power.

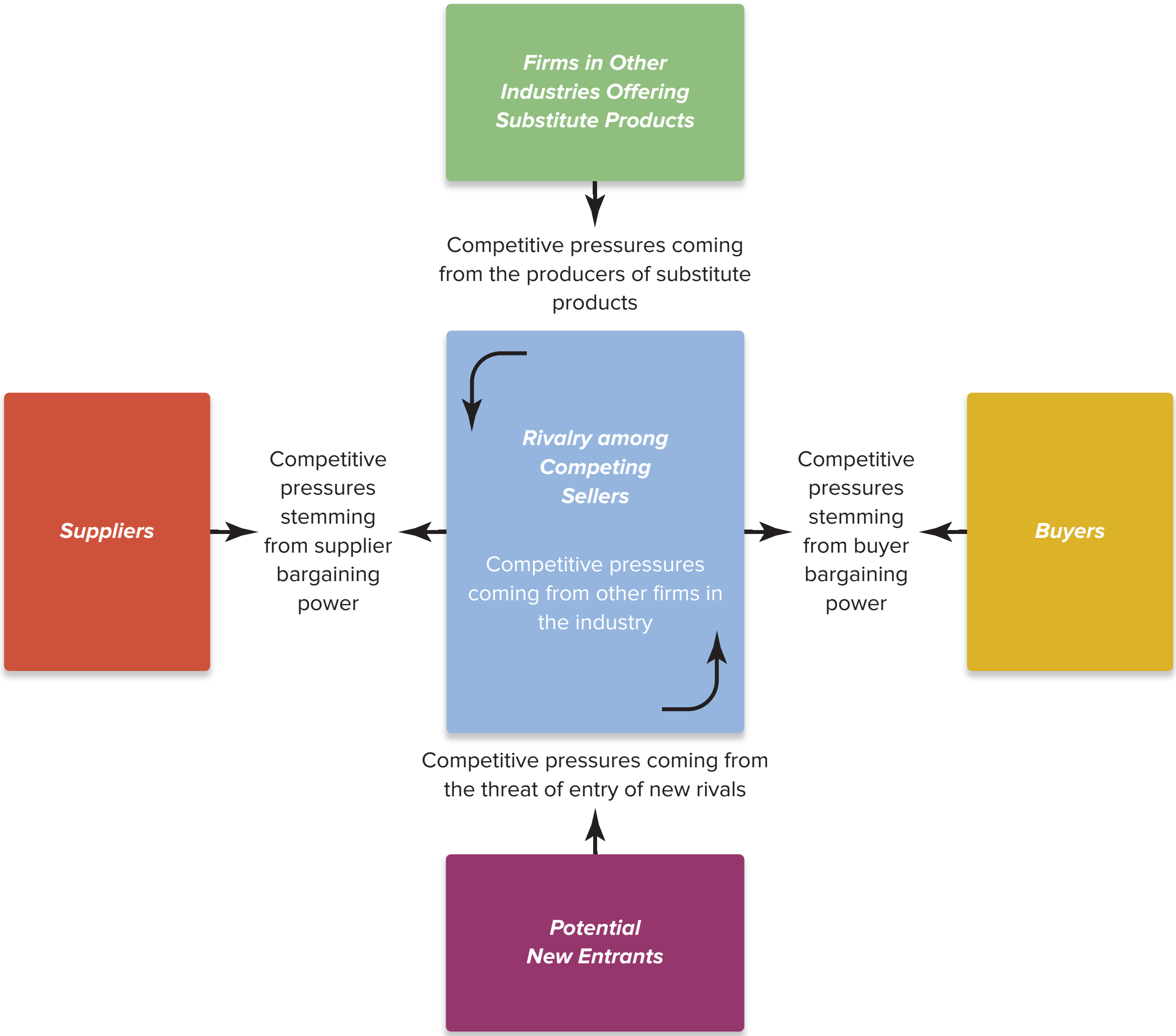
Using the five forces model to determine the nature and strength of competitive pressures in a given industry involves three steps:

- *Step 1:* For each of the five forces, identify the different parties involved, along with the specific factors that bring about competitive pressures.
- *Step 2:* Evaluate how strong the pressures stemming from each of the five forces are (strong, moderate, or weak).
- *Step 3:* Determine whether the five forces, overall, are supportive of high industry profitability.

Competitive Pressures Created by the Rivalry among Competing Sellers

The strongest of the five competitive forces is often the rivalry for buyer patronage among competing sellers of a product or service. The intensity of rivalry among competing sellers within an industry depends on a number of identifiable factors. Figure 3.4 summarizes these factors, identifying those that intensify or weaken rivalry among direct competitors in an industry. A brief explanation of why these factors affect the degree of rivalry is in order:

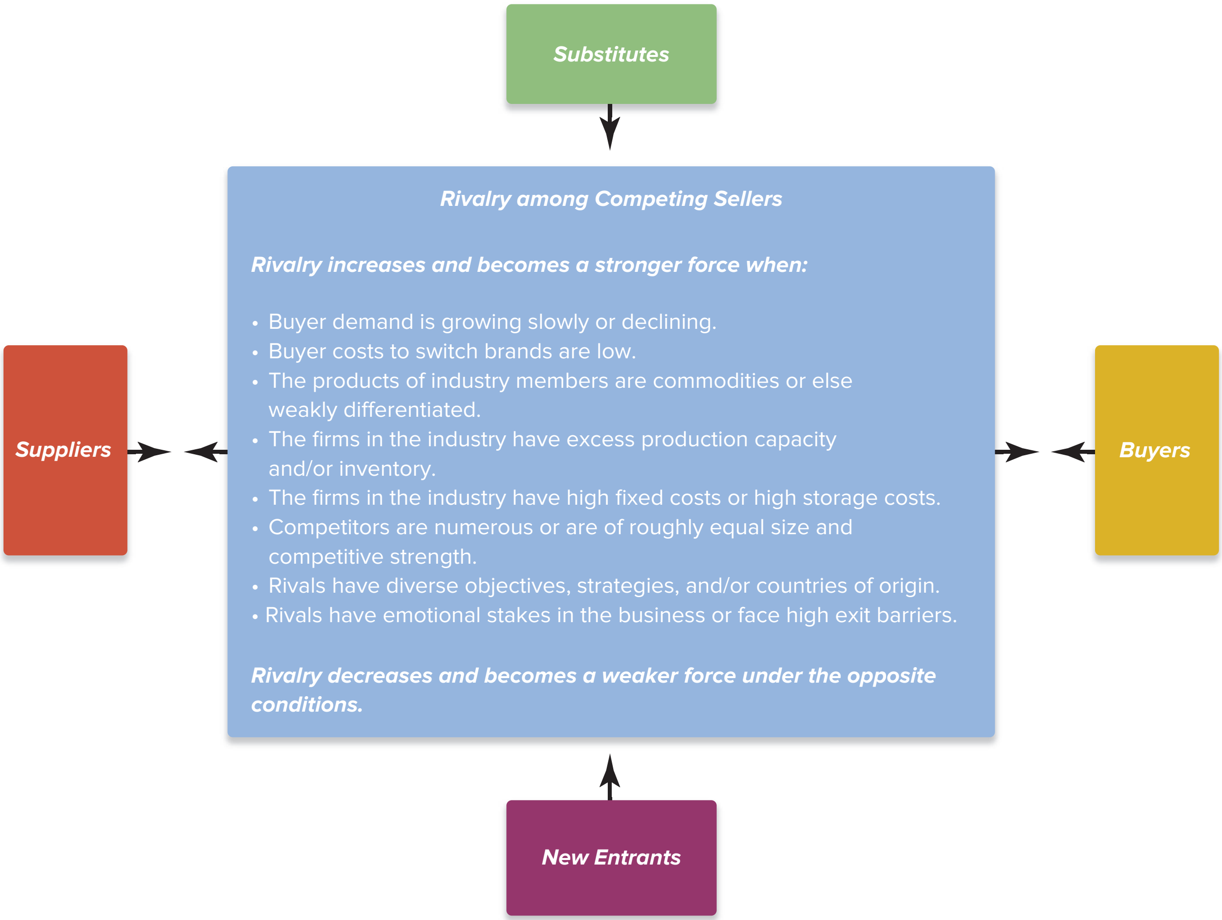
FIGURE 3.3 The Five Forces Model of Competition: A Key Analytic Tool



Sources: Adapted from M. E. Porter, "How Competitive Forces Shape Strategy," *Harvard Business Review* 57, no. 2 (1979), pp. 137–145; M. E. Porter, "The Five Competitive Forces That Shape Strategy," *Harvard Business Review* 86, no. 1 (2008), pp. 80–86.

- *Rivalry increases when buyer demand is growing slowly or declining.* Rapidly expanding buyer demand produces enough new business for all industry members to grow without having to draw customers away from rival enterprises. But in markets where buyer demand is slow-growing or shrinking, companies eager to gain more business are likely to engage in aggressive price discounting, sales promotions, and other tactics to increase their sales volumes at the expense of rivals, sometimes to the point of igniting a fierce battle for market share.
- *Rivalry increases as it becomes less costly for buyers to switch brands.* The less costly (or easier) it is for buyers to switch their purchases from one seller to another, the easier it is for sellers to steal customers away from rivals. When the cost of

FIGURE 3.4 Factors Affecting the Strength of Rivalry



switching brands is higher, buyers are less prone to brand switching and sellers have protection from rivalrous moves. Switching costs include not only monetary costs but also the time, inconvenience, and psychological costs involved in switching brands. For example, retailers may not switch to the brands of rival manufacturers because they are hesitant to sever long-standing supplier relationships or incur the additional expense of retraining employees, accessing technical support, or testing the quality and reliability of the new brand. Consumers may not switch brands because they become emotionally attached to a particular brand (e.g. if you identify with the Harley motorcycle brand and lifestyle).

- *Rivalry increases as the products of rival sellers become less strongly differentiated.* When the offerings of rivals are identical or weakly differentiated, buyers have less reason to be brand-loyal—a condition that makes it easier for rivals to convince buyers to switch to their offerings. Moreover, when the products of different sellers are virtually identical, shoppers will choose on the basis of price, which can result in fierce price competition among sellers. On the other hand, strongly differentiated product offerings among rivals breed high brand loyalty on the part of buyers who view the attributes of certain brands as more appealing or better suited to their needs.

- *Rivalry is more intense when industry members have too much inventory or significant amounts of idle production capacity, especially if the industry's product entails high fixed costs or high storage costs.* Whenever a market has excess supply (overproduction relative to demand), rivalry intensifies as sellers cut prices in a desperate effort to cope with the unsold inventory. A similar effect occurs when a product is perishable or seasonal, since firms often engage in aggressive price cutting to ensure that everything is sold. Likewise, whenever fixed costs account for a large fraction of total cost so that unit costs are significantly lower at full capacity, firms come under significant pressure to cut prices whenever they are operating below full capacity. Unused capacity imposes a significant cost-increasing penalty because there are fewer units over which to spread fixed costs. The pressure of high fixed or high storage costs can push rival firms into offering price concessions, special discounts, and rebates and employing other volume-boosting competitive tactics.
- *Rivalry intensifies as the number of competitors increases and they become more equal in size and capability.* When there are many competitors in a market, companies eager to increase their meager market share often engage in price-cutting activities to drive sales, leading to intense rivalry. When there are only a few competitors, companies are more wary of how their rivals may react to their attempts to take market share away from them. Fear of retaliation and a descent into a damaging price war leads to restrained competitive moves. Moreover, when rivals are of comparable size and competitive strength, they can usually compete on a fairly equal footing—an evenly matched contest tends to be fiercer than a contest in which one or more industry members have commanding market shares and substantially greater resources than their much smaller rivals.
- *Rivalry becomes more intense as the diversity of competitors increases in terms of long-term directions, objectives, strategies, and countries of origin.* A diverse group of sellers often contains one or more mavericks willing to try novel or rule-breaking market approaches, thus generating a more volatile and less predictable competitive environment. Globally competitive markets are often more rivalrous, especially when aggressors have lower costs and are intent on gaining a strong foothold in new country markets.
- *Rivalry is stronger when high exit barriers keep unprofitable firms from leaving the industry.* In industries where the assets cannot easily be sold or transferred to other uses, where workers are entitled to job protection, or where owners are committed to remaining in business for personal reasons, failing firms tend to hold on longer than they might otherwise—even when they are bleeding red ink. Deep price discounting typically ensues, in a desperate effort to cover costs and remain in business. This sort of rivalry can destabilize an otherwise attractive industry.

The previous factors, taken as whole, determine whether the rivalry in an industry is relatively strong, moderate, or weak. When rivalry is *strong,* the battle for market share is generally so vigorous that the profit margins of most industry members are squeezed to bare-bones levels. When rivalry is *moderate,* a more normal state, the maneuvering among industry members, while lively and healthy, still allows most industry members to earn acceptable profits. When rivalry is *weak,* most companies in the industry are relatively well satisfied with their sales growth and market shares and rarely undertake offensives to steal customers away from one another. Weak rivalry means that there is no downward pressure on industry profitability due to this particular competitive force.

The Choice of Competitive Weapons

Competitive battles among rival sellers can assume many forms that extend well beyond lively price competition. For example, competitors may resort to such marketing tactics as special sales promotions, heavy advertising, rebates, or low-interest-rate financing to drum up additional sales. Rivals may race one another to differentiate their products by offering better performance features or higher quality or improved customer service or a wider product selection. They may also compete through the rapid introduction of next-generation products, the frequent introduction of new or improved products, and efforts to build stronger dealer networks, establish positions in foreign markets, or otherwise expand distribution capabilities and market presence. Table 3.2 displays the competitive weapons that firms often employ in battling rivals, along with their primary effects with respect to price (*P*), cost (*C*), and value (*V*)—the elements of an effective business model and the value-price-cost framework, discussed in Chapter 1.

Competitive Pressures Associated with the Threat of New Entrants

New entrants into an industry threaten the position of rival firms since they will compete fiercely for market share, add to the number of industry rivals, and add to the industry's production capacity in the process. But even the *threat* of new entry puts added competitive pressure on current industry members and thus functions as an important competitive force. This is because credible threat of entry often prompts industry members to lower their prices and initiate defensive actions in an attempt

TABLE 3.2 Common "Weapons" for Competing with Rivals

Types of Competitive Weapons	Primary Effects
Discounting prices, holding clearance sales	Lowers price (*P*), increases total sales volume and market share, lowers profits if price cuts are not offset by large increases in sales volume
Offering coupons, advertising items on sale	Increases sales volume and total revenues, lowers price (*P*), increases unit costs (*C*), may lower profit margins per unit sold (*P* – *C*)
Advertising product or service characteristics, using ads to enhance a company's image	Boosts buyer demand, increases product differentiation and perceived value (*V*), increases total sales volume and market share, but may increase unit costs (*C*) and lower profit margins per unit sold
Innovating to improve product performance and quality	Increases product differentiation and value (*V*), boosts buyer demand, boosts total sales volume, likely to increase unit costs (*C*)
Introducing new or improved features, increasing the number of styles to provide greater product selection	Increases product differentiation and value (*V*), strengthens buyer demand, boosts total sales volume and market share, likely to increase unit costs (*C*)
Increasing customization of product or service	Increases product differentiation and value (*V*), increases buyer switching costs, boosts total sales volume, often increases unit costs (*C*)
Building a bigger, better dealer network	Broadens access to buyers, boosts total sales volume and market share, may increase unit costs (*C*)
Improving warranties, offering low-interest financing	Increases product differentiation and value (*V*), increases unit costs (*C*), increases buyer switching costs, boosts total sales volume and market share

to deter new entrants. Just how serious the threat of entry is in a particular market depends on (1) whether entry barriers are high or low, and (2) the expected reaction of existing industry members to the entry of newcomers.

Whether Entry Barriers Are High or Low The strength of the threat of entry is governed to a large degree by the height of the industry's entry barriers. High barriers reduce the threat of potential entry, whereas low barriers enable easier entry. Entry barriers are high under the following conditions:[2]

- *There are sizable economies of scale in production, distribution, advertising, or other activities.* When incumbent companies enjoy cost advantages associated with large-scale operations, outsiders must either enter on a large scale (a costly and perhaps risky move) or accept a cost disadvantage and consequently lower profitability.
- *Incumbents have other hard to replicate cost advantages over new entrants.* Aside from enjoying economies of scale, industry incumbents can have cost advantages that stem from the possession of patents or proprietary technology, exclusive partnerships with the best and cheapest suppliers, favorable locations, and low fixed costs (because they have older facilities that have been mostly depreciated). Learning-based cost savings can also accrue from experience in performing certain activities such as manufacturing or new product development or inventory management. The extent of such savings can be measured with learning/experience curves. The steeper the learning/experience curve, the bigger the cost advantage of the company with the largest *cumulative* production volume. The microprocessor industry provides an excellent example of this:

  > *Manufacturing unit costs for microprocessors tend to decline about 20 percent each time cumulative production volume doubles. With a 20 percent experience curve effect, if the first 1 million chips cost $100 each, once production volume reaches 2 million, the unit cost would fall to $80 (80 percent of $100), and by a production volume of 4 million, the unit cost would be $64 (80 percent of $80).*[3]

- *Customers have strong brand preferences and high degrees of loyalty to seller.* The stronger the attachment of buyers to established brands, the harder it is for a newcomer to break into the marketplace. In such cases, a new entrant must have the financial resources to spend enough on advertising and sales promotion to overcome customer loyalties and build its own clientele. Establishing brand recognition and building customer loyalty can be a slow and costly process. In addition, if it is difficult or costly for a customer to switch to a new brand, a new entrant may have to offer a discounted price or otherwise persuade buyers that its brand is worth the switching costs. Such barriers discourage new entry because they act to boost financial requirements and lower expected profit margins for new entrants.
- *Patents and other forms of intellectual property protection are in place.* In a number of industries, entry is prevented due to the existence of intellectual property protection laws that remain in place for a given number of years. Often, companies have a "wall of patents" in place to prevent other companies from entering with a "me too" strategy that replicates a key piece of technology.
- *There are strong "network effects" in customer demand.* In industries where buyers are more attracted to a product when there are many other users of the product, there are said to be "network effects," since demand is higher the larger the network of users. Video game systems are an example because users prefer to have the same systems as their friends so that they can play together on systems they all

know and can share games. When incumbents have a large existing base of users, new entrants with otherwise comparable products face a serious disadvantage in attracting buyers.

- *Capital requirements are high.* The larger the total dollar investment needed to enter the market successfully, the more limited the pool of potential entrants. The most obvious capital requirements for new entrants relate to manufacturing facilities and equipment, introductory advertising and sales promotion campaigns, working capital to finance inventories and customer credit, and sufficient cash to cover startup costs.
- *There are difficulties in building a network of distributors/dealers or in securing adequate space on retailers' shelves.* A potential entrant can face numerous distribution-channel challenges. Wholesale distributors may be reluctant to take on a product that lacks buyer recognition. Retailers must be recruited and convinced to give a new brand ample display space and an adequate trial period. When existing sellers have strong, well-functioning distributor–dealer networks, a newcomer has an uphill struggle in squeezing its way into existing distribution channels. Potential entrants sometimes have to "buy" their way into wholesale or retail channels by cutting their prices to provide dealers and distributors with higher markups and profit margins or by giving them big advertising and promotional allowances. As a consequence, a potential entrant's own profits may be squeezed unless and until its product gains enough consumer acceptance that distributors and retailers are willing to carry it.
- *There are restrictive regulatory policies.* Regulated industries like cable TV, telecommunications, electric and gas utilities, radio and television broadcasting, liquor retailing, nuclear power, and railroads entail government-controlled entry. Government agencies can also limit or even bar entry by requiring licenses and permits, such as the medallion required to drive a taxicab in New York City. Government-mandated safety regulations and environmental pollution standards also create entry barriers because they raise entry costs. Recently enacted banking regulations in many countries have made entry particularly difficult for small new bank startups—complying with all the new regulations along with the rigors of competing against existing banks requires very deep pockets.
- *There are restrictive trade policies.* In international markets, host governments commonly limit foreign entry and must approve all foreign investment applications. National governments commonly use tariffs and trade restrictions (antidumping rules, local content requirements, quotas, etc.) to raise entry barriers for foreign firms and protect domestic producers from outside competition.

The Expected Reaction of Industry Members in Defending against New Entry

A second factor affecting the threat of entry relates to the ability and willingness of industry incumbents to launch strong defensive maneuvers to maintain their positions and make it harder for a newcomer to compete successfully and profitably. Entry candidates may have second thoughts about attempting entry if they conclude that existing firms will mount well-funded campaigns to hamper (or even defeat) a newcomer's attempt to gain a market foothold big enough to compete successfully. Such campaigns can include any of the "competitive weapons" listed in Table 3.2, such as ramping up advertising expenditures, offering special price discounts to the very customers a newcomer is seeking to attract, or adding attractive new product features (to match or beat the newcomer's product offering). Such actions can raise a newcomer's cost of entry along with the risk of failing, making the prospect of entry less appealing. The result is that even the expectation on the part of new entrants that industry incumbents will contest a newcomer's entry may be enough to dissuade entry candidates from going forward. Microsoft can be counted on to fiercely defend the position that Windows enjoys in computer operating systems and that Microsoft Office has in office productivity software. This may well have contributed to Microsoft's ability to continuously dominate this market space.

However, there are occasions when industry incumbents have nothing in their competitive arsenal that is formidable enough to either discourage entry or put obstacles in a newcomer's path that will defeat its strategic efforts to become a viable competitor. In the restaurant industry, for example, existing restaurants in a given geographic market have few actions they can take to discourage a new restaurant from opening or to block it from attracting enough patrons to be profitable. A fierce competitor like Nike was unable to prevent newcomer Under Armour from rapidly growing its sales and market share in sports apparel. Furthermore, there are occasions when industry incumbents can be expected to refrain from taking or initiating any actions specifically aimed at contesting a newcomer's entry. In large industries, entry by small startup enterprises normally poses no immediate or direct competitive threat to industry incumbents and their entry is not likely to provoke defensive actions. For instance, a new online retailer with sales prospects of maybe $5 to $10 million annually can reasonably expect to escape competitive retaliation from much larger online retailers selling similar goods. The less that a newcomer's entry will adversely impact the sales and profitability of industry incumbents, the more reasonable it is for potential entrants to expect industry incumbents to refrain from reacting defensively.

> Even high entry barriers may not suffice to keep out certain kinds of entrants: those with resources and capabilities that enable them to leap over or bypass the barriers.

Figure 3.5 summarizes the factors that cause the overall competitive pressure from potential entrants to be strong or weak. An analysis of these factors can help managers determine whether the threat of entry into their industry is high or low, *in general.* But certain kinds of companies—those with sizable financial resources, proven competitive capabilities, and a respected brand name—may be able to hurdle an industry's entry barriers even when they are high.[4] For example, when Honda opted to enter the U.S. lawn-mower market in competition against Toro, Snapper, Craftsman, John Deere, and others, it was easily able to hurdle entry barriers that would have been formidable to other newcomers because it had long-standing expertise in gasoline engines and a reputation for quality and durability in automobiles that gave it instant credibility with homeowners. As a result, Honda had to spend relatively little on inducing dealers to handle the Honda lawn-mower line or attracting customers. Similarly, Samsung's brand reputation in televisions, DVD players, and other electronics products gave it strong credibility in entering the market for smartphones—Samsung's Galaxy smartphones are now a formidable rival of Apple's iPhone.

> High entry barriers and weak entry threats today do not always translate into high entry barriers and weak entry threats tomorrow.

It is also important to recognize that the barriers to entering an industry can become stronger or weaker over time. For example, once key patents preventing new entry in the market for functional 3-D printers expired, the way was open for new competition to enter this industry. On the other hand, new strategic actions by incumbent firms to increase advertising, strengthen distributor–dealer relations, step up R&D, or improve product quality can erect higher roadblocks to entry.

Competitive Pressures from the Sellers of Substitute Products

Companies in one industry are vulnerable to competitive pressure from the actions of companies in a closely adjoining industry whenever buyers view the products of the two industries as good substitutes. Substitutes do *not* include other brands within your

FIGURE 3.5 Factors Affecting the Threat of Entry

industry; this type of pressure comes from *outside* the industry. Substitute products from outside the industry are those that can perform the same or similar functions for the consumer as products within your industry. For instance, the producers of eyeglasses and contact lenses face competitive pressures from the doctors who do corrective laser surgery. Similarly, the producers of sugar experience competitive pressures from the producers of sugar substitutes (high-fructose corn syrup, agave syrup, and artificial sweeteners). Internet providers of news-related information have put brutal competitive pressure on the publishers of newspapers. The makers of smartphones, by building ever better cameras into their cell phones, have cut deeply into the sales of producers of handheld digital cameras—most smartphone owners now use their phone to take pictures rather than carrying a digital camera for picture-taking purposes.

As depicted in Figure 3.6, three factors determine whether the competitive pressures from substitute products are strong or weak. Competitive pressures are stronger when

1. *Good substitutes are readily available and attractively priced.* The presence of readily available and attractively priced substitutes creates competitive pressure by placing a ceiling on the prices industry members can charge without risking sales erosion. This price ceiling, at the same time, puts a lid on the profits that industry members can earn unless they find ways to cut costs.
2. *Buyers view the substitutes as comparable or better in terms of quality, performance, and other relevant attributes.* The availability of substitutes inevitably invites customers to compare performance, features, ease of use, and other attributes besides price. The users of paper cartons constantly weigh the price-performance trade-offs

FIGURE 3.6 Factors Affecting Competition from Substitute Products

with plastic containers and metal cans, for example. Movie enthusiasts are increasingly weighing whether to go to movie theaters to watch newly released movies or wait until they can watch the same movies streamed to their home TV by Netflix, Amazon Prime, cable providers, and other on-demand sources.

3. *The costs that buyers incur in switching to the substitutes are low.* Low switching costs make it easier for the sellers of attractive substitutes to lure buyers to their offerings; high switching costs deter buyers from purchasing substitute products.

Some signs that the competitive strength of substitute products is increasing include (1) whether the sales of substitutes are growing faster than the sales of the industry being analyzed, (2) whether the producers of substitutes are investing in added capacity, and (3) whether the producers of substitutes are earning progressively higher profits.

But before assessing the competitive pressures coming from substitutes, company managers must identify the substitutes, which is less easy than it sounds since it involves (1) determining where the industry boundaries lie and (2) figuring out which other products or services can address the same basic customer needs as those produced by industry members. Deciding on the industry boundaries is necessary for determining which firms are direct rivals and which produce substitutes. This is a matter of perspective—there are no hard-and-fast rules, other than to say that other brands of the same basic product constitute rival products and not substitutes. Ultimately, it's simply the buyer who decides what can serve as a good substitute.

Competitive Pressures Stemming from Supplier Bargaining Power

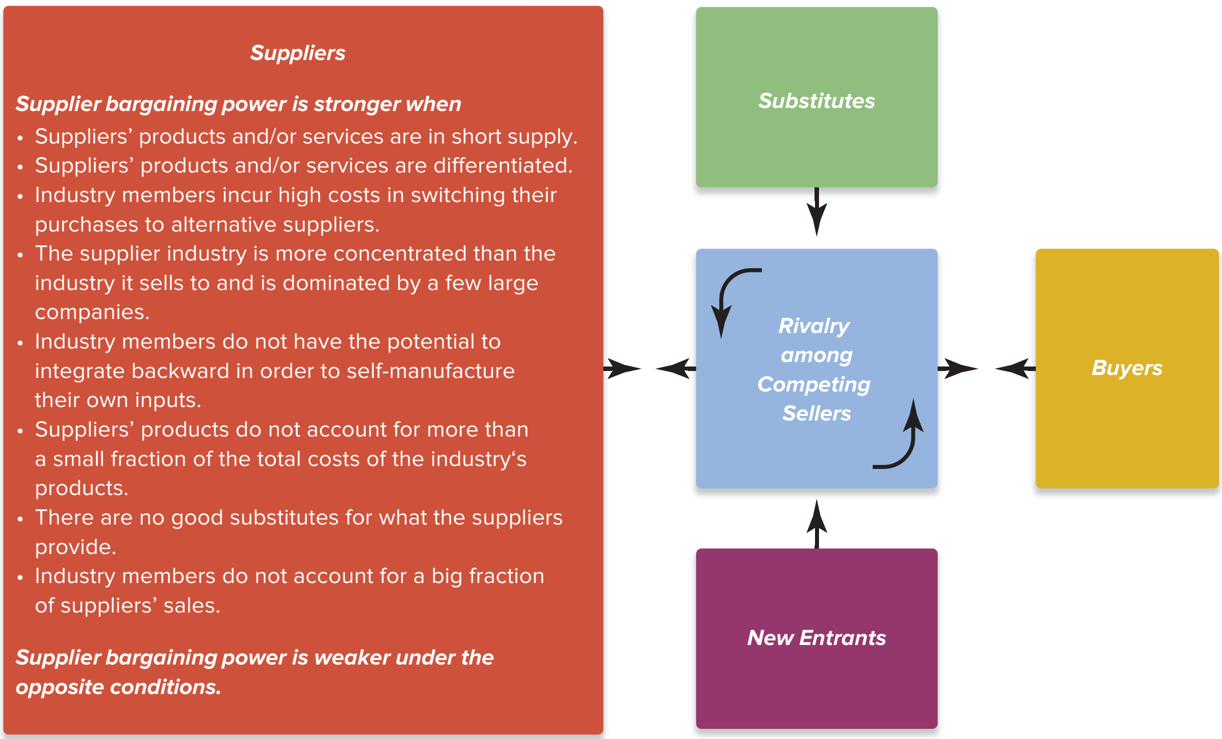
Whether the suppliers of industry members represent a weak or strong competitive force depends on the degree to which suppliers have sufficient *bargaining power* to influence the terms and conditions of supply in their favor. Suppliers with strong bargaining power are a source of competitive pressure because of their ability to charge industry members higher prices, pass costs on to them, and limit their opportunities to find better deals. For instance, Microsoft and Intel, both of which supply PC makers with essential components, have been known to use their dominant market status not only to charge PC makers premium prices but also to leverage their power over PC makers in other ways. The bargaining power of these two companies over their customers is so great that both companies have faced antitrust charges on numerous occasions. Prior to a legal agreement ending the practice, Microsoft pressured PC makers to load only Microsoft products on the PCs they shipped. Intel has defended itself against similar antitrust charges, but in filling orders for newly introduced Intel chips, it continues to give top priority to PC makers that use the biggest percentages of Intel chips in their PC models. Being on Intel's list of preferred customers helps a PC maker get an early allocation of Intel's latest chips and thus allows the PC maker to get new models to market ahead of rivals.

Small-scale retailers often must contend with the power of manufacturers whose products enjoy well-known brand names, since consumers expect to find these products on the shelves of the retail stores where they shop. This provides the manufacturer with a degree of pricing power and often the ability to push hard for favorable shelf displays. Supplier bargaining power is also a competitive factor in industries where unions have been able to organize the workforce (which supplies labor). Air pilot unions, for example, have employed their bargaining power to increase pilots' wages and benefits in the air transport industry. The growing clout of the largest healthcare union in the United States has led to better wages and working conditions in nursing homes.

As shown in Figure 3.7, a variety of factors determine the strength of suppliers' bargaining power. Supplier power is stronger when

- *Demand for suppliers' products is high and the products are in short supply.* A surge in the demand for particular items shifts the bargaining power to the suppliers of those products; suppliers of items in short supply have pricing power.
- *Suppliers provide differentiated inputs that enhance the performance of the industry's product.* The more valuable a particular input is in terms of enhancing the performance or quality of the products of industry members, the more bargaining leverage suppliers have. In contrast, the suppliers of commodities are in a weak bargaining position, since industry members have no reason other than price to prefer one supplier over another.
- *It is difficult or costly for industry members to switch their purchases from one supplier to another.* Low switching costs limit supplier bargaining power by enabling industry members to change suppliers if any one supplier attempts to raise prices by more than the costs of switching. Thus, the higher the switching costs of industry members, the stronger the bargaining power of their suppliers.
- *The supplier industry is dominated by a few large companies and it is more concentrated than the industry it sells to.* Suppliers with sizable market shares and strong demand for the items they supply generally have sufficient bargaining power to charge high prices and deny requests from industry members for lower prices or other concessions.

FIGURE 3.7 Factors Affecting the Bargaining Power of Suppliers



- *Industry members are incapable of integrating backward to self-manufacture items they have been buying from suppliers.* As a rule, suppliers are safe from the threat of self-manufacture by their customers until the volume of parts a customer needs becomes large enough for the customer to justify backward integration into self-manufacture of the component. When industry members can threaten credibly to self-manufacture suppliers' goods, their bargaining power over suppliers increases proportionately.
- *Suppliers provide an item that accounts for no more than a small fraction of the costs of the industry's product.* The more that the cost of a particular part or component affects the final product's cost, the more that industry members will be sensitive to the actions of suppliers to raise or lower their prices. When an input accounts for only a small proportion of total input costs, buyers will be less sensitive to price increases. Thus, suppliers' power increases when the inputs they provide do *not* make up a large proportion of the cost of the final product.
- *Good substitutes are not available for the suppliers' products.* The lack of readily available substitute inputs increases the bargaining power of suppliers by increasing the dependence of industry members on the suppliers.
- *Industry members are not major customers of suppliers.* As a rule, suppliers have less bargaining leverage when their sales to members of the industry constitute a big percentage of their total sales. In such cases, the well-being of suppliers is closely tied to the well-being of their major customers, and their dependence upon them increases. The bargaining power of suppliers is stronger, then, when they are *not* bargaining with major customers.

In identifying the degree of supplier power in an industry, it is important to recognize that different types of suppliers are likely to have different amounts of bargaining power. Thus, the first step is for managers to identify the different types of suppliers, paying particular attention to those that provide the industry with important inputs. The next step is to assess the bargaining power of each type of supplier separately.

Competitive Pressures Stemming from Buyer Bargaining Power and Price Sensitivity

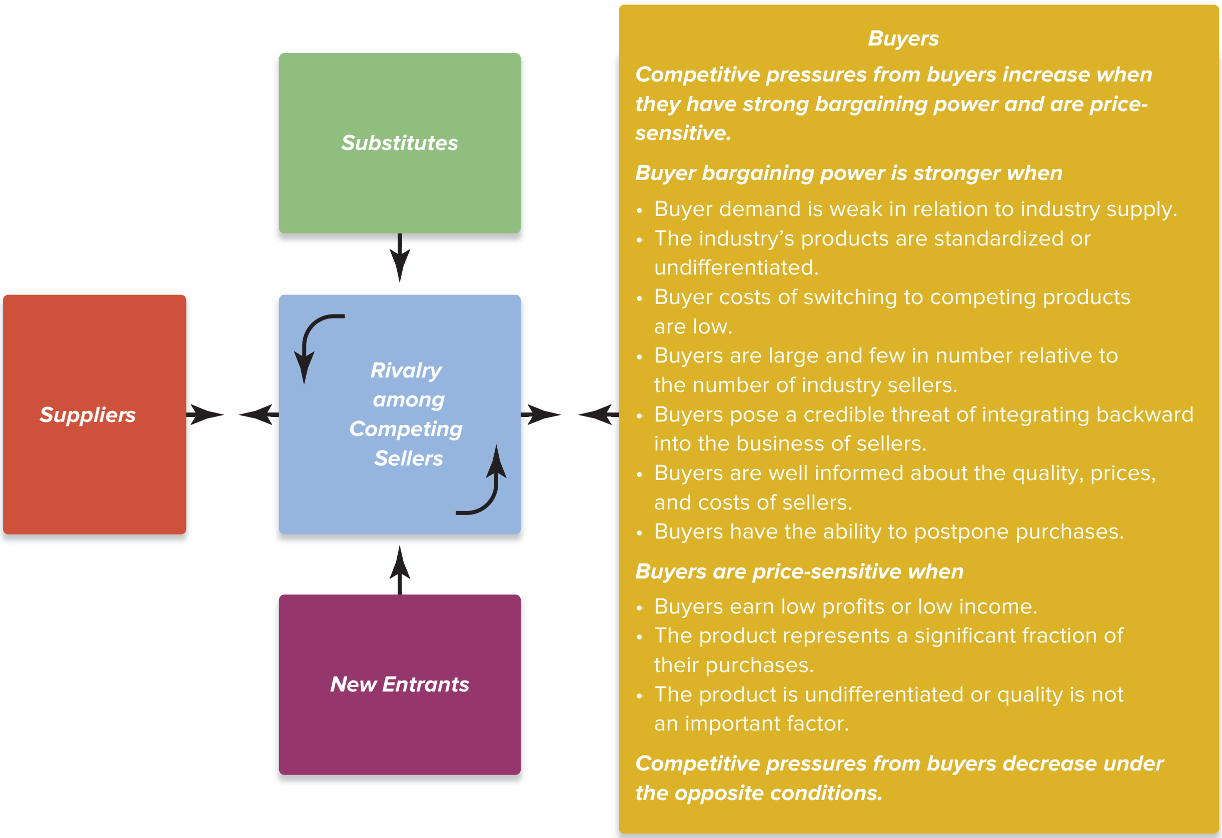
Whether buyers are able to exert strong competitive pressures on industry members depends on (1) the degree to which buyers have bargaining power and (2) the extent to which buyers are price-sensitive. Buyers with strong bargaining power can limit industry profitability by demanding price concessions, better payment terms, or additional features and services that increase industry members' costs. Buyer price sensitivity limits the profit potential of industry members by restricting the ability of sellers to raise prices without losing revenue due to lost sales.

As with suppliers, the leverage that buyers have in negotiating favorable terms of sale can range from weak to strong. Individual consumers seldom have much bargaining power in negotiating price concessions or other favorable terms with sellers. However, their price sensitivity varies by individual and by the type of product they are buying (whether it's a necessity or a discretionary purchase, for example). Similarly, small businesses usually have weak bargaining power because of the small-size orders they place with sellers. Many relatively small wholesalers and retailers join buying groups to pool their purchasing power and approach manufacturers for better terms than could be gotten individually. Large business buyers, in contrast, can have considerable bargaining power. For example, large retail chains like

Walmart, Best Buy, Staples, and Home Depot typically have considerable bargaining power in purchasing products from manufacturers, not only because they buy in large quantities, but also because of manufacturers' need for access to their broad base of customers. Major supermarket chains like Kroger, Albertsons, Hannaford, and Aldi have sufficient bargaining power to demand promotional allowances and lump-sum payments (called *slotting fees*) from food products manufacturers in return for stocking certain brands or putting them in the best shelf locations. Motor vehicle manufacturers have strong bargaining power in negotiating to buy original-equipment tires from tire makers such as Bridgestone, Goodyear, Michelin, Continental, and Pirelli, partly because they buy in large quantities and partly because consumers are more likely to buy replacement tires that match the tire brand on their vehicle at the time of its purchase. The starting point for the analysis of buyers as a competitive force is to identify the different types of buyers along the value chain—then proceed to analyzing the bargaining power and price sensitivity of each type separately. It is important to recognize that *not all buyers of an industry's product have equal degrees of bargaining power with sellers, and some may be less sensitive than others to price, quality, or service differences.*

Figure 3.8 summarizes the factors determining the strength of buyer power in an industry. The top of this chart lists the factors that increase buyers' bargaining power,

FIGURE 3.8 Factors Affecting the Power of Buyers



which we discuss next. Note that the first five factors are the mirror image of those determining the bargaining power of suppliers.

Buyer bargaining power is stronger when

- *Buyer demand is weak in relation to the available supply.* Weak or declining demand and the resulting excess supply create a "buyers' market," in which bargain-hunting buyers have leverage in pressing industry members for better deals and special treatment. Conversely, strong or rapidly growing market demand creates a "sellers' market" characterized by tight supplies or shortages—conditions that put buyers in a weak position to wring concessions from industry members.
- *Industry goods are standardized or differentiation is weak.* In such circumstances, buyers make their selections on the basis of price, which increases price competition among vendors.
- *Buyers' costs of switching to competing brands or substitutes are relatively low.* Switching costs put a cap on how much industry producers can raise prices or reduce quality before they will lose the buyer's business.
- *Buyers are large and few in number relative to the number of sellers.* The larger the buyers, the more important their business is to the seller and the more sellers will be willing to grant concessions.
- *Buyers pose a credible threat of integrating backward into the business of sellers.* Beer producers like Anheuser Busch InBev SA/NV (whose brands include Budweiser, Molson Coors, and Heineken) have partially integrated backward into metal-can manufacturing to gain bargaining power in obtaining the balance of their can requirements from otherwise powerful metal-can manufacturers.
- *Buyers are well informed about the product offerings of sellers (product features and quality, prices, buyer reviews) and the cost of production (an indicator of markup).* The more information buyers have, the better bargaining position they are in. The mushrooming availability of product information on the Internet (and its ready access on smartphones) is giving added bargaining power to consumers, since they can use this to find or negotiate better deals. Apps such as ShopSavvy and BuyVia are now making comparison shopping even easier.
- *Buyers have discretion to delay their purchases or perhaps even not make a purchase at all.* Consumers often have the option to delay purchases of durable goods (cars, major appliances), or decline to buy discretionary goods (massages, concert tickets) if they are not happy with the prices offered. Business customers may also be able to defer their purchases of certain items, such as plant equipment or maintenance services. This puts pressure on sellers to provide concessions to buyers so that the sellers can keep their sales numbers from dropping off.

Whether Buyers Are More or Less Price-Sensitive Low-income and budget-constrained consumers are almost always price-sensitive; bargain-hunting consumers are highly price-sensitive by nature. Most consumers grow more price-sensitive as the price tag of an item becomes a bigger fraction of their spending budget. Similarly, business buyers besieged by weak sales, intense competition, and other factors squeezing their profit margins are price-sensitive. Price sensitivity also grows among businesses as the cost of an item becomes a bigger fraction of their cost structure. Rising prices of frequently purchased items heighten the price sensitivity of all types of buyers. On the other hand, the price sensitivity of all types of buyers decreases the more that the quality of the product matters.

The following factors increase buyer price sensitivity and result in greater competitive pressures on the industry as a result:

- *Buyer price sensitivity increases when buyers are earning low profits or have low income.* Price is a critical factor in the purchase decisions of low-income consumers and companies that are barely scraping by. In such cases, their high price sensitivity limits the ability of sellers to charge high prices.
- *Buyers are more price-sensitive if the product represents a large fraction of their total purchases.* When a purchase eats up a large portion of a buyer's budget or represents a significant part of his or her cost structure, the buyer cares more about price than might otherwise be the case.
- *Buyers are more price-sensitive when the quality of the product is not uppermost in their considerations.* Quality matters little when products are relatively undifferentiated, leading buyers to focus more on price. But when quality affects performance, or can reduce a business buyer's other costs (by saving on labor, materials, etc.), price will matter less.

Is the Collective Strength of the Five Competitive Forces Conducive to Good Profitability?

Assessing whether each of the five competitive forces gives rise to strong, moderate, or weak competitive pressures sets the stage for evaluating whether, overall, the strength of the five forces is conducive to good profitability. Is any of the competitive forces sufficiently powerful to undermine industry profitability? Can companies in this industry reasonably expect to earn decent profits in light of the prevailing competitive forces?

The most extreme case of a "competitively unattractive" industry occurs when all five forces are producing strong competitive pressures: Rivalry among sellers is vigorous, low entry barriers allow new rivals to gain a market foothold, competition from substitutes is intense, and both suppliers and buyers are able to exercise considerable leverage. Strong competitive pressures coming from all five directions drive industry profitability to unacceptably low levels, frequently producing losses for many industry members and forcing some out of business. But an industry can be competitively unattractive without all five competitive forces being strong. In fact, *intense competitive pressures from just one of the five forces may suffice to destroy the conditions for good profitability and prompt some companies to exit the business.*

CORE CONCEPT

The strongest of the five forces determines the extent of the downward pressure on an industry's profitability.

As a rule, *the strongest competitive forces determine the extent of the competitive pressure on industry profitability.* Thus, in evaluating the strength of the five forces overall and their effect on industry profitability, managers should look to the strongest forces. Having more than one strong force will not worsen the effect on industry profitability, but it does mean that the industry has multiple competitive challenges with which to cope. In that sense, an industry with three to five strong forces is even more "unattractive" as a place to compete. Especially intense competitive conditions due to multiple strong forces seem to be the norm in tire manufacturing, apparel, and commercial airlines, three industries where profit margins have historically been thin.

In contrast, when the overall impact of the five competitive forces is moderate to weak, an industry is "attractive" in the sense that the *average* industry member can reasonably expect to earn good profits and a nice return on investment. The ideal competitive environment for earning superior profits is one in which both suppliers and customers have limited power, there are no good substitutes, high barriers block further entry, and rivalry among present sellers is muted. Weak competition is the best of all possible worlds for also-ran companies because even they can usually eke out a decent profit—if a company can't make a decent profit when competition is weak, then its business outlook is indeed grim.

Matching Company Strategy to Competitive Conditions

Working through the five forces model step by step not only aids strategy makers in assessing whether the intensity of competition allows good profitability but also promotes sound strategic thinking about how to better match company strategy to the specific competitive character of the marketplace. Effectively matching a company's business strategy to prevailing competitive conditions has two aspects:

A company's strategy is strengthened the more it provides insulation from competitive pressures, shifts the competitive battle in the company's favor, and positions the firm to take advantage of attractive growth opportunities.

1. Pursuing avenues that shield the firm from as many of the different competitive pressures as possible.
2. Initiating actions calculated to shift the competitive forces in the company's favor by altering the underlying factors driving the five forces.

But making headway on these two fronts first requires identifying competitive pressures, gauging the relative strength of each of the five competitive forces, and gaining a deep enough understanding of the state of competition in the industry to know which strategy buttons to push.

COMPLEMENTORS AND THE VALUE NET

Not all interactions among industry participants are necessarily competitive in nature. Some have the potential to be cooperative, as the value net framework demonstrates. Like the five forces framework, the value net includes an analysis of buyers, suppliers, and substitutors (see Figure 3.9). But it differs from the five forces framework in several important ways.

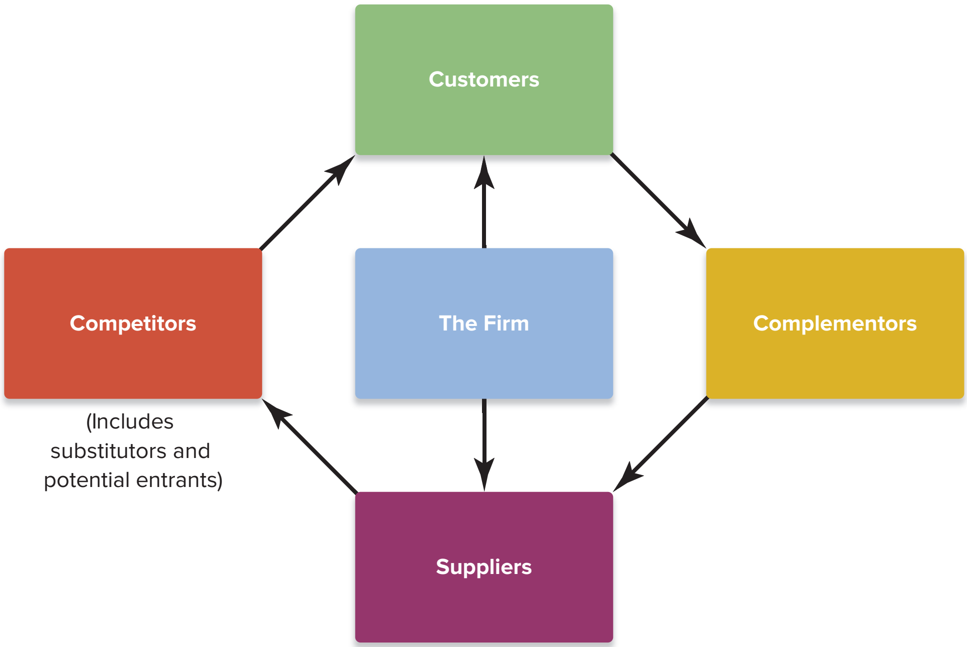
First, the analysis focuses on the interactions of industry participants with a particular company. Thus, it places that firm in the center of the framework, as Figure 3.9 shows. Second, the category of "competitors" is defined to include not only the focal firm's direct competitors or industry rivals but also the sellers of substitute products and potential entrants. Third, the value net framework introduces a new category of industry participant that is not found in the five forces framework—that of "complementors." **Complementors** are the producers of complementary products, which are products that enhance the value of the focal firm's products when they are used together. Some examples include snorkels and swim fins or shoes and shoelaces.

CORE CONCEPT

Complementors are the producers of complementary products, which are products that enhance the value of the focal firm's products when they are used together.

The inclusion of complementors draws particular attention to the fact that success in the marketplace need not come at the expense of other industry participants. Interactions among industry participants may be cooperative in nature rather than competitive. In the case of complementors, an increase in sales for them is likely to increase the sales of the focal firm as well. But the value net framework also encourages managers to consider other forms of cooperative interactions and realize that value is created jointly by all industry participants. For example, a company's success in the marketplace depends on establishing a reliable supply chain for its inputs, which implies the need for cooperative relations with its suppliers. Often a firm works

FIGURE 3.9 The Value Net



hand in hand with its suppliers to ensure a smoother, more efficient operation for both parties. Newell-Rubbermaid, and Procter & Gamble for example, work cooperatively as suppliers to companies such as Walmart, Target, and Kohl's. Even direct rivals may work cooperatively if they participate in industry trade associations or engage in joint lobbying efforts. Value net analysis can help managers discover the potential to improve their position through cooperative as well as competitive interactions.

INDUSTRY DYNAMICS AND THE FORCES DRIVING CHANGE

While it is critical to understand the nature and intensity of competitive and cooperative forces in an industry, it is equally critical to understand that the intensity of these forces is fluid and subject to change. All industries are affected by new developments and ongoing trends that alter industry conditions, some more speedily than others. The popular hypothesis that industries go through a life cycle of takeoff, rapid growth, maturity, market saturation and slowing growth, followed by stagnation or decline is but one aspect of industry change—many other new developments and emerging trends cause industry change.[5] Any strategies devised by management will therefore play out in a dynamic industry environment, so it's imperative that managers consider the factors driving industry change and how they might affect the industry environment. Moreover, with early notice, managers may be able to influence the direction or scope of environmental change and improve the outlook.

Industry and competitive conditions change because forces are enticing or pressuring certain industry participants (competitors, customers, suppliers, complementors) to alter their actions in important ways. The most powerful of the change agents are called **driving forces** because they have the biggest influences in reshaping the industry landscape and altering competitive conditions. Some driving forces originate in the outer ring of the company's macro-environment (see Figure 3.2), but most originate in the company's more immediate industry and competitive environment.

CORE CONCEPT

Driving forces are the major underlying causes of change in industry and competitive conditions.

Driving-forces analysis has three steps: (1) identifying what the driving forces are; (2) assessing whether the drivers of change are, on the whole, acting to make the industry more or less attractive; and (3) determining what strategy changes are needed to prepare for the impact of the driving forces. All three steps merit further discussion.

Identifying the Forces Driving Industry Change

Many developments can affect an industry powerfully enough to qualify as driving forces. Some drivers of change are unique and specific to a particular industry situation, but most drivers of industry and competitive change fall into one of the following categories:

- *Changes in an industry's long-term growth rate.* Shifts in industry growth up or down have the potential to affect the balance between industry supply and buyer demand, entry and exit, and the character and strength of competition. Whether demand is growing or declining is one of the key factors influencing the intensity of rivalry in an industry, as explained earlier. But the strength of this effect will depend on how changes in the industry growth rate affect entry and exit in the industry. If entry barriers are low, then growth in demand will attract new entrants, increasing the number of industry rivals and changing the competitive landscape.
- *Increasing globalization.* Globalization can be precipitated by such factors as the blossoming of consumer demand in developing countries, the availability of lower-cost foreign inputs, and the reduction of trade barriers, as has occurred recently in many parts of Latin America and Asia. Significant differences in labor costs among countries give manufacturers a strong incentive to locate plants for labor-intensive products in low-wage countries and use these plants to supply market demand across the world. Wages in China, India, Vietnam, Mexico, and Brazil, for example, are much lower than those in the United States, Germany, and Japan. The forces of globalization are sometimes such a strong driver that companies find it highly advantageous, if not necessary, to spread their operating reach into more and more country markets. Globalization is very much a driver of industry change in such industries as energy, mobile phones, steel, social media, public accounting, commercial aircraft, electric power generation equipment, and pharmaceuticals.
- *Emerging new Internet capabilities and applications.* Mushrooming use of high-speed Internet service and Voice-over-Internet-Protocol (VoIP) technology, growing acceptance of online shopping, and the exploding popularity of Internet applications ("apps") have been major drivers of change in industry after industry. The Internet has allowed online discount stock brokers, such as E*TRADE, and TD Ameritrade to mount a strong challenge against full-service firms such as Edward Jones and Merrill Lynch. The newspaper industry has yet to figure out a strategy for surviving the advent of online news.

Massive open online courses (MOOCs) facilitated by organizations such as Coursera, edX, and Udacity are profoundly affecting higher education. The "Internet of things" will feature faster speeds, dazzling applications, and billions of connected gadgets performing an array of functions, thus driving further industry and competitive changes. But Internet-related impacts vary from industry to industry. The challenges are to assess precisely how emerging Internet developments are altering a particular industry's landscape and to factor these impacts into the strategy-making equation.

- *Shifts in who buys the products and how the products are used.* Shifts in buyer demographics and the ways products are used can greatly alter competitive conditions. Longer life expectancies and growing percentages of relatively well-to-do retirees, for example, are driving demand growth in such industries as cosmetic surgery, assisted living residences, and vacation travel. The burgeoning popularity of streaming video has affected broadband providers, wireless phone carriers, and television broadcasters, and created opportunities for such new entertainment businesses as Hulu and Netflix.
- *Technological change and manufacturing process innovation.* Advances in technology can cause disruptive change in an industry by introducing substitutes or can alter the industry landscape by opening up whole new industry frontiers. For instance, revolutionary change in autonomous system technology has put Google, Tesla, Apple, and every major automobile manufacturer into a race to develop viable self-driving vehicles.
- *Product innovation.* An ongoing stream of product innovations tends to alter the pattern of competition in an industry by attracting more first-time buyers, rejuvenating industry growth, and/or increasing product differentiation, with concomitant effects on rivalry, entry threat, and buyer power. Product innovation has been a key driving force in the smartphone industry, which in an ever more connected world is driving change in other industries. Philips Lighting Hue bulbs now allow homeowners to use a smartphone app to remotely turn lights on and off, blink if an intruder is detected, and create a wide range of white and color ambiances. Wearable action-capture cameras and unmanned aerial view drones are rapidly becoming a disruptive force in the digital camera industry by enabling photography shots and videos not feasible with handheld digital cameras.
- *Marketing innovation.* When firms are successful in introducing new ways to market their products, they can spark a burst of buyer interest, widen industry demand, increase product differentiation, and lower unit costs—any or all of which can alter the competitive positions of rival firms and force strategy revisions. Consider, for example, the growing propensity of advertisers to place a bigger percentage of their ads on social media sites like Facebook and Twitter.
- *Entry or exit of major firms.* Entry by a major firm thus often produces a new ball game, not only with new key players but also with new rules for competing. Similarly, exit of a major firm changes the competitive structure by reducing the number of market leaders and increasing the dominance of the leaders who remain.
- *Diffusion of technical know-how across companies and countries.* As knowledge about how to perform a particular activity or execute a particular manufacturing technology spreads, products tend to become more commodity-like. Knowledge diffusion can occur through scientific journals, trade publications, onsite plant tours, word of mouth among suppliers and customers, employee migration, and Internet sources.
- *Changes in cost and efficiency.* Widening or shrinking differences in the costs among key competitors tend to dramatically alter the state of competition. Declining costs of producing tablets have enabled price cuts and spurred tablet sales (especially

lower-priced models) by making them more affordable to lower-income households worldwide. Lower cost e-books are cutting into sales of costlier hardcover books as increasing numbers of consumers have laptops, iPads, Kindles, and other brands of tablets.

- *Reductions in uncertainty and business risk.* Many companies are hesitant to enter industries with uncertain futures or high levels of business risk because it is unclear how much time and money it will take to overcome various technological hurdles and achieve acceptable production costs (as is the case in the solar power industry). Over time, however, diminishing risk levels and uncertainty tend to stimulate new entry and capital investments on the part of growth-minded companies seeking new opportunities, thus dramatically altering industry and competitive conditions.
- *Regulatory influences and government policy changes.* Government regulatory actions can often mandate significant changes in industry practices and strategic approaches—as has recently occurred in the world's banking industry. New rules and regulations pertaining to government-sponsored health insurance programs are driving changes in the health care industry. In international markets, host governments can drive competitive changes by opening their domestic markets to foreign participation or closing them to protect domestic companies.
- *Changing societal concerns, attitudes, and lifestyles.* Emerging social issues as well as changing attitudes and lifestyles can be powerful instigators of industry change. Growing concern about the effects of climate change has emerged as a major driver of change in the energy industry. Concerns about the use of chemical additives and the nutritional content of food products have been driving changes in the restaurant and food industries. Shifting societal concerns, attitudes, and lifestyles alter the pattern of competition, favoring those players that respond with products targeted to the new trends and conditions.

While many forces of change may be at work in a given industry, *no more than three or four* are likely to be true driving forces powerful enough to qualify as the *major determinants* of why and how the industry is changing. Thus, company strategists must resist the temptation to label every change they see as a driving force. Table 3.3 lists the most common driving forces.

The most important part of driving-forces analysis is to determine whether the collective impact of the driving forces will increase or decrease market demand, make competition more or less intense, and lead to higher or lower industry profitability.

TABLE 3.3 The Most Common Drivers of Industry Change

- Changes in the long-term industry growth rate
- Increasing globalization
- Emerging new Internet capabilities and applications
- Shifts in buyer demographics
- Technological change and manufacturing process innovation
- Product and marketing innovation
- Entry or exit of major firms
- Diffusion of technical know-how across companies and countries
- Changes in cost and efficiency
- Reductions in uncertainty and business risk
- Regulatory influences and government policy changes
- Changing societal concerns, attitudes, and lifestyles

Assessing the Impact of the Forces Driving Industry Change

The second step in driving-forces analysis is to determine whether the prevailing change drivers, on the whole, are acting to make the industry environment more or less attractive. Three questions need to be answered:

The real payoff of driving-forces analysis is to help managers understand what strategy changes are needed to prepare for the impacts of the driving forces.

1. Are the driving forces, on balance, acting to cause demand for the industry's product to increase or decrease?
2. Is the collective impact of the driving forces making competition more or less intense?
3. Will the combined impacts of the driving forces lead to higher or lower industry profitability?

Getting a handle on the collective impact of the driving forces requires looking at the likely effects of each factor separately, since the driving forces may not all be pushing change in the same direction. For example, one driving force may be acting to spur demand for the industry's product while another is working to curtail demand. Whether the net effect on industry demand is up or down hinges on which change driver is the most powerful.

Adjusting the Strategy to Prepare for the Impacts of Driving Forces

The third step in the strategic analysis of industry dynamics—where the real payoff for strategy making comes—is for managers to draw some conclusions about *what strategy adjustments will be needed to deal with the impacts of the driving forces.* But taking the "right" kinds of actions to prepare for the industry and competitive changes being wrought by the driving forces first requires accurate diagnosis of the forces driving industry change and the impacts these forces will have on both the industry environment and the company's business. To the extent that managers are unclear about the drivers of industry change and their impacts, or if their views are off-base, the chances of making astute and timely strategy adjustments are slim. So driving-forces analysis is not something to take lightly; it has practical value and is basic to the task of thinking strategically about where the industry is headed and how to prepare for the changes ahead.

STRATEGIC GROUP ANALYSIS

LO 3-3

Map the market positions of key groups of industry rivals.

Within an industry, companies commonly sell in different price/quality ranges, appeal to different types of buyers, have different geographic coverage, and so on. Some are more attractively positioned than others. Understanding which companies are strongly positioned and which are weakly positioned is an integral part of analyzing an industry's competitive structure. The best technique for revealing the market positions of industry competitors is **strategic group mapping.**

Using Strategic Group Maps to Assess the Market Positions of Key Competitors

A **strategic group** consists of those industry members with similar competitive approaches and positions in the market. Companies in the same strategic group can resemble one another in a variety of ways. They may have comparable product-line breadth, sell in the same price/quality range, employ the same distribution channels, depend on identical technological approaches, compete in much the same geographic areas, or offer buyers essentially the same product attributes or similar services and technical assistance.[6] Evaluating strategy options entails examining what strategic groups exist, identifying the companies within each group, and determining if a competitive "white space" exists where industry competitors are able to create and capture altogether new demand. As part of this process, the number of strategic groups in an industry and their respective market positions can be displayed on a strategic group map.

CORE CONCEPT

Strategic group mapping is a technique for displaying the different market or competitive positions that rival firms occupy in the industry.

The procedure for constructing a *strategic group map* is straightforward:

- Identify the competitive characteristics that delineate strategic approaches used in the industry. Typical variables used in creating strategic group maps are price/quality range (high, medium, low), geographic coverage (local, regional, national, global), product-line breadth (wide, narrow), degree of service offered (no frills, limited, full), use of distribution channels (retail, wholesale, Internet, multiple), degree of vertical integration (none, partial, full), and degree of diversification into other industries (none, some, considerable).
- Plot the firms on a two-variable map using pairs of these variables.
- Assign firms occupying about the same map location to the same strategic group.
- Draw circles around each strategic group, making the circles proportional to the size of the group's share of total industry sales revenues.

CORE CONCEPT

A **strategic group** is a cluster of industry rivals that have similar competitive approaches and market positions.

This produces a two-dimensional diagram like the one for the U.S. pizza chain industry in Illustration Capsule 3.2.

Several guidelines need to be observed in creating strategic group maps. First, the two variables selected as axes for the map should *not* be highly correlated; if they are, the circles on the map will fall along a diagonal and reveal nothing more about the relative positions of competitors than would be revealed by comparing the rivals on just one of the variables. For instance, if companies with broad product lines use multiple distribution channels while companies with narrow lines use a single distribution channel, then looking at the differences in distribution-channel approaches adds no new information about positioning.

Second, the variables chosen as axes for the map should reflect important differences among rival approaches—when rivals differ on both variables, the locations of the rivals will be scattered, thus showing how they are positioned differently. Third, the variables used as axes don't have to be either quantitative or continuous; rather, they can be discrete variables, defined in terms of distinct classes and combinations. Fourth, drawing the sizes of the circles on the map proportional to the combined sales of the firms in each strategic group allows the map to reflect the relative sizes of each strategic group. Fifth, if more than two good variables can be used as axes for the map, then it is wise to draw several maps to give different exposures to the competitive positioning relationships present in the industry's structure—there is not necessarily one best map for portraying how competing firms are positioned.

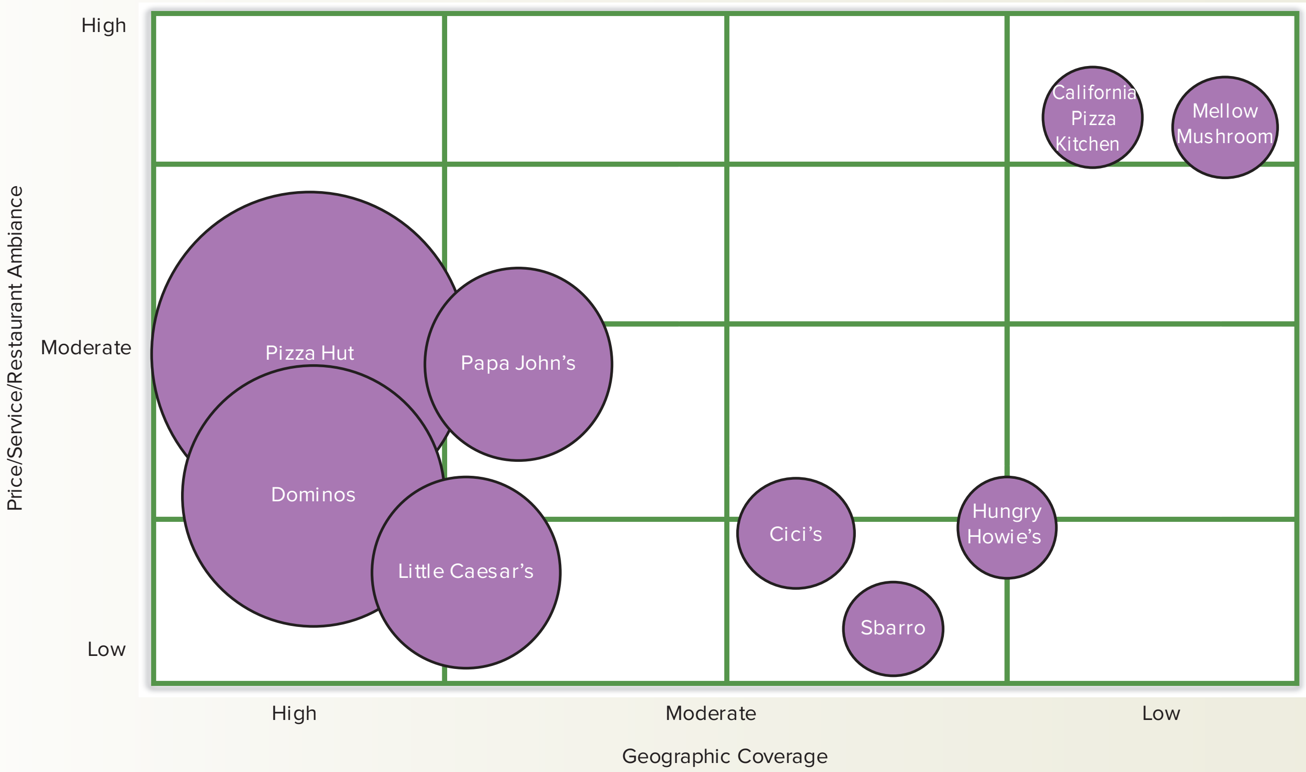
The Value of Strategic Group Maps

Strategic group maps reveal which companies are close competitors and which are distant competitors.

Strategic group maps are revealing in several respects. The most important has to do with identifying which industry members are close rivals and which are distant rivals. Firms in the same strategic group are the closest rivals; the next closest rivals

ILLUSTRATION CAPSULE 3.2

Comparative Market Positions of Selected Companies in the Pizza Chain Industry: A Strategic Group Map Example



Note: Circles are drawn roughly proportional to the sizes of the chains, based on revenues.

are in the immediately adjacent groups. Often, firms in strategic groups that are far apart on the map hardly compete at all. For instance, Walmart's clientele, merchandise selection, and pricing points are much too different to justify calling Walmart a close competitor of Neiman Marcus or Saks Fifth Avenue. For the same reason, the beers produced by Yuengling are really not in competition with the beers produced by Pabst.

The second thing to be gleaned from strategic group mapping is that *not all positions on the map are equally attractive.*[7] Two reasons account for why some positions can be more attractive than others:

1. *Prevailing competitive pressures from the industry's five forces may cause the profit potential of different strategic groups to vary.* The profit prospects of firms in different strategic groups can vary from good to poor because of differing degrees of competitive rivalry within strategic groups, differing pressures from potential entrants to each group, differing degrees of exposure to competition from substitute products outside the industry, and differing degrees of supplier or customer bargaining power from group to group. For instance, in the ready-to-eat cereal industry, there are significantly higher entry barriers (capital requirements, brand loyalty, etc.) for

the strategic group comprising the large branded-cereal makers than for the group of generic-cereal makers or the group of small natural-cereal producers. Differences among the branded rivals versus the generic cereal makers make rivalry stronger within the generic-cereal strategic group. Among apparel retailers, the competitive battle between Marshall's and TJ MAXX is more intense (with consequently smaller profit margins) than the rivalry among Prada, Burberry, Gucci, Armani, and other high-end fashion retailers.

2. *Industry driving forces may favor some strategic groups and hurt others.* Likewise, industry driving forces can boost the business outlook for some strategic groups and adversely impact the business prospects of others. In the energy industry, producers of renewable energy, such as solar and wind power, are gaining ground over fossil fuel-based producers due to improvements in technology and increased concern over climate change. Firms in strategic groups that are being adversely impacted by driving forces may try to shift to a more favorably situated position. If certain firms are known to be trying to change their competitive positions on the map, then attaching arrows to the circles showing the targeted direction helps clarify the picture of competitive maneuvering among rivals.

Some strategic groups are more favorably positioned than others because they confront weaker competitive forces and/or because they are more favorably impacted by industry driving forces.

Thus, part of strategic group map analysis always entails drawing conclusions about where on the map is the "best" place to be and why. Which companies/strategic groups are destined to prosper because of their positions? Which companies/strategic groups seem destined to struggle? What accounts for why some parts of the map are better than others? Since some strategic groups are more attractive than others, one might ask why less well-positioned firms do not simply migrate to the more attractive position. The answer is that **mobility barriers** restrict movement between groups in the same way that entry barriers prevent easy entry into attractive industries. The most profitable strategic groups may be protected from entry by high mobility barriers.

CORE CONCEPT

Mobility barriers restrict firms in one strategic group from entering another more attractive strategic group in the same industry.

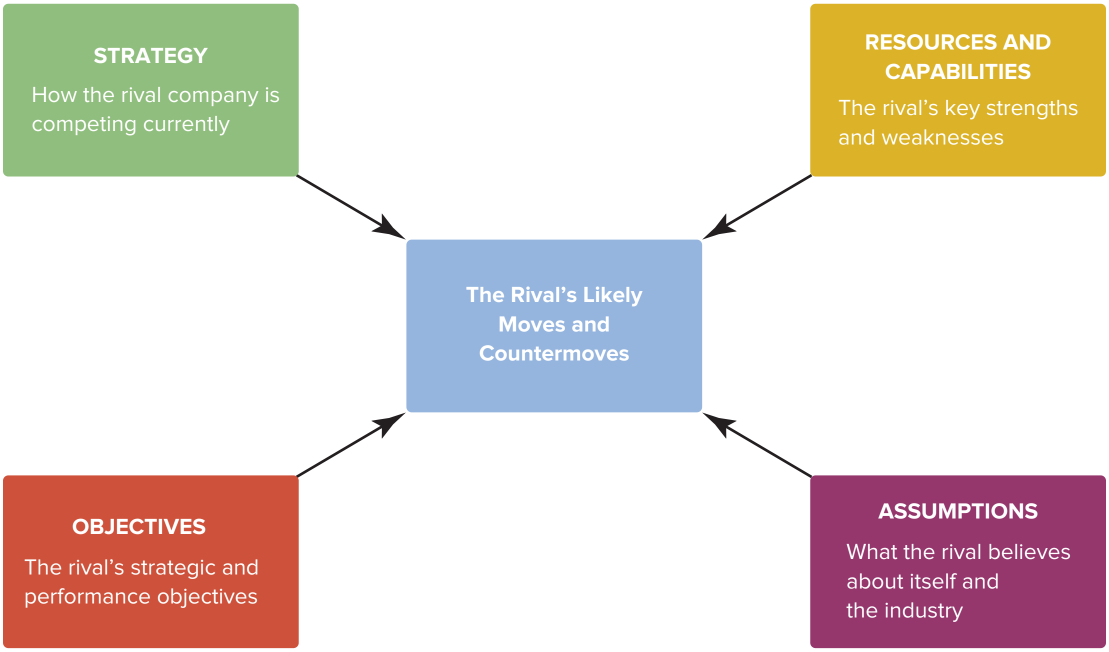
COMPETITOR ANALYSIS AND THE SOAR FRAMEWORK

Unless a company pays attention to the strategies and situations of competitors and has some inkling of what moves they will be making, it ends up flying blind into competitive battle. As in sports, scouting the opposition is an essential part of game plan development. Gathering competitive intelligence about the strategic direction and likely moves of key competitors allows a company to prepare defensive countermoves, to craft its own strategic moves with some confidence about what market maneuvers to expect from rivals in response, and to exploit any openings that arise from competitors' missteps. The question is where to look for such information, since rivals rarely reveal their strategic intentions openly. If information is not directly available, what are the best indicators?

Studying competitors' past behavior and preferences provides a valuable assist in anticipating what moves rivals are likely to make next and outmaneuvering them in the marketplace.

Michael Porter's **SOAR Framework for Competitor Analysis** points to four indicators of a rival's likely strategic moves and countermoves. These include a rival's *Strategy, Objectives, Assumptions* about itself and the industry, and *Resources and capabilities,* as shown in Figure 3.10. A strategic profile of a competitor that provides good clues to its behavioral proclivities can be constructed by characterizing the rival along these four dimensions. By "behavioral proclivities," we mean what competitive moves a rival is likely to make and how they are likely to react to the competitive moves of your company—its

FIGURE 3.10 The SOAR Framework for Competitor Analysis



probable actions and reactions. By listing all that you know about a competitor (or a set of competitors) with respect to each of the four elements of the SOAR framework, you are likely to gain some insight about how the rival will behave in the near term. And knowledge of this sort can help you to predict how this will affect you, and how you should position yourself to respond. That is, what should you do to protect yourself or gain advantage now (in advance); and what should you do in response to your rivals next moves?

Current Strategy To succeed in predicting a competitor's next moves, company strategists need to have a good understanding of each rival's current strategy, as an indicator of its pattern of behavior and best strategic options. Questions to consider include: How is the competitor positioned in the market? What is the basis for its competitive advantage (if any)? What kinds of investments is it making (as an indicator of its growth trajectory)?

Objectives An appraisal of a rival's objectives should include not only its financial performance objectives but strategic ones as well (such as those concerning market share). What is even more important is to consider the extent to which the rival is meeting these objectives and whether it is under pressure to improve. Rivals with good financial performance are likely to continue their present strategy with only minor fine-tuning. Poorly performing rivals are virtually certain to make fresh strategic moves.

Resources and Capabilities A rival's strategic moves and countermoves are both enabled and constrained by the set of resources and capabilities the rival has at hand. Thus, a rival's resources and capabilities (and efforts to acquire new resources and capabilities) serve as a strong signal of future strategic actions (and reactions to your company's moves). Assessing a rival's resources and capabilities involves sizing up not only its strengths in this respect but its weaknesses as well.

Assumptions How a rival's top managers think about their strategic situation can have a big impact on how the rival behaves. Banks that believe they are "too big to fail," for example, may take on more risk than is financially prudent. Assessing a rival's assumptions entails considering its assumptions about itself as well as about the industry it participates in.

Information regarding these four analytic components can often be gleaned from company press releases, information posted on the company's website (especially the presentations management has recently made to securities analysts), and such public documents as annual reports and 10-K filings. Many companies also have a competitive intelligence unit that sifts through the available information to construct up-to-date strategic profiles of rivals.[8]

Doing the necessary detective work can be time-consuming, but scouting competitors well enough to anticipate their next moves allows managers to prepare effective countermoves (perhaps even beat a rival to the punch) and to take rivals' probable actions into account in crafting their own best course of action. Despite the importance of gathering such information, these activities should never cross the bounds of ethical impropriety (see Illustration Capsule 3.3).

KEY SUCCESS FACTORS

CORE CONCEPT

Key success factors are the strategy elements, product and service attributes, operational approaches, resources, and competitive capabilities that are essential to surviving and thriving in the industry.

An industry's **key success factors (KSFs)** are those competitive factors that most affect industry members' ability to survive and prosper in the marketplace: the particular strategy elements, product attributes, operational approaches, resources, and competitive capabilities that spell the difference between being a strong competitor and a weak competitor—and between profit and loss. KSFs by their very nature are so important to competitive success that *all firms* in the industry must pay close attention to them or risk becoming an industry laggard or failure. To indicate the significance of KSFs another way, how well the elements of a company's strategy measure up against an industry's KSFs determines whether the company can meet the basic criteria for surviving and thriving in the industry. Identifying KSFs, in light of the prevailing and anticipated industry and competitive conditions, is therefore always a top priority in analytic and strategy-making considerations. Company strategists need to understand the industry landscape well enough to separate the factors most important to competitive success from those that are less important.

Key success factors vary from industry to industry, and even from time to time within the same industry, as change drivers and competitive conditions change. But regardless of the circumstances, an industry's key success factors can always be deduced by asking the same three questions:

1. On what basis do buyers of the industry's product choose between the competing brands of sellers? That is, what product attributes and service characteristics are crucial?
2. Given the nature of competitive rivalry prevailing in the marketplace, what resources and competitive capabilities must a company have to be competitively successful?
3. What shortcomings are almost certain to put a company at a significant competitive disadvantage?

ILLUSTRATION CAPSULE 3.3 Business Ethics and Competitive Intelligence

Those who gather competitive intelligence on rivals can sometimes cross the fine line between honest inquiry and unethical or even illegal behavior. For example, calling rivals to get information about prices, the dates of new product introductions, or wage and salary levels is legal, but misrepresenting one's company affiliation during such calls is unethical. Pumping rivals' representatives at trade shows is ethical only if one wears a name tag with accurate company affiliation indicated.

Avon Products at one point secured information about its biggest rival, Mary Kay Cosmetics (MKC), by having its personnel search through the garbage bins outside MKC's headquarters. When MKC officials learned of the action and sued, Avon claimed it did nothing illegal since a 1988 Supreme Court case had ruled that trash left on public property (in this case, a sidewalk) was anyone's for the taking. Avon even produced a videotape of its removal of the trash at the MKC site. Avon won the lawsuit—but Avon's action, while legal, scarcely qualifies as ethical.

Only rarely are there more than five key factors for competitive success. And even among these, two or three usually outrank the others in importance. Managers should therefore bear in mind the purpose of identifying key success factors—to determine which factors are most important to competitive success—and resist the temptation to label a factor that has only minor importance as a KSF.

In the beer industry, for example, although there are many types of buyers (wholesale, retail, end consumer), it is most important to understand the preferences and buying behavior of the beer drinkers. Their purchase decisions are driven by price, taste, convenient access, and marketing. Thus, the KSFs include a *strong network of wholesale distributors* (to get the company's brand stocked and favorably displayed in retail outlets, bars, restaurants, and stadiums, where beer is sold) and *clever advertising* (to induce beer drinkers to buy the company's brand and thereby pull beer sales through the established wholesale and retail channels). Because there is a potential for strong buyer power on the part of large distributors and retail chains, competitive success depends on some mechanism to offset that power, of which advertising (to create demand pull) is one. Thus, the KSFs also include *superior product differentiation* (as in microbrews) or *superior firm size and branding capabilities* (as in national brands). The KSFs also include *full utilization of brewing capacity* (to keep manufacturing costs low and offset the high costs of advertising, branding, and product differentiation).

Correctly diagnosing an industry's KSFs also raises a company's chances of crafting a sound strategy. The key success factors of an industry point to those things that every firm in the industry needs to attend to in order to retain customers and weather the competition. If the company's strategy cannot deliver on the key success factors of its industry, it is unlikely to earn enough profits to remain a viable business.

THE INDUSTRY OUTLOOK FOR PROFITABILITY

Each of the frameworks presented in this chapter—PESTEL, five forces analysis, driving forces, strategy groups, competitor analysis, and key success factors—provides a useful perspective on an industry's outlook for future profitability. Putting them all together provides an even richer and more nuanced picture. Thus, the final step in evaluating the industry and competitive environment is to use the results of each of the analyses performed to determine whether the industry presents the company with strong prospects for competitive success and attractive profits. The important factors on which to base a conclusion include

• LO 3-4

Determine whether an industry's outlook presents a company with sufficiently attractive opportunities for growth and profitability.

- How the company is being impacted by the state of the macro-environment.
- Whether strong competitive forces are squeezing industry profitability to subpar levels.
- Whether the presence of complementors and the possibility of cooperative actions improve the company's prospects.
- Whether industry profitability will be favorably or unfavorably affected by the prevailing driving forces.
- Whether the company occupies a stronger market position than rivals.
- Whether this is likely to change in the course of competitive interactions.
- How well the company's strategy delivers on the industry key success factors.

As a general proposition, *the anticipated industry environment is fundamentally attractive if it presents a company with good opportunity for above-average profitability; the industry outlook is fundamentally unattractive if a company's profit prospects are unappealingly low.*

However, it is a mistake to think of a particular industry as being equally attractive or unattractive to all industry participants and all potential entrants.[9] Attractiveness is relative, not absolute, and conclusions one way or the other have to be drawn from the perspective of a particular company. For instance, a favorably positioned competitor may see ample opportunity to capitalize on the vulnerabilities of weaker rivals even though industry conditions are otherwise somewhat dismal. At the same time, industries attractive to insiders may be unattractive to outsiders because of the difficulty of challenging current market leaders or because they have more attractive opportunities elsewhere.

The degree to which an industry is attractive or unattractive is not the same for all industry participants and all potential entrants.

When a company decides an industry is fundamentally attractive and presents good opportunities, a strong case can be made that it should invest aggressively to capture the opportunities it sees and to improve its long-term competitive position in the business. When a strong competitor concludes an industry is becoming less attractive, it may elect to simply protect its present position, investing cautiously—if at all—and looking for opportunities in other industries. A competitively weak company in an unattractive industry may see its best option as finding a buyer, perhaps a rival, to acquire its business.

KEY POINTS

Thinking strategically about a company's external situation involves probing for answers to the following questions:

1. *What are the strategically relevant factors in the macro-environment, and how do they impact an industry and its members?* Industries differ significantly as to how they are affected by conditions and developments in the broad macro-environment. Using PESTEL analysis to identify which of these factors is strategically relevant is the first step to understanding how a company is situated in its external environment.
2. *What kinds of competitive forces are industry members facing, and how strong is each force?* The strength of competition is a composite of five forces: (1) rivalry within

the industry, (2) the threat of new entry into the market, (3) inroads being made by the sellers of substitutes, (4) supplier bargaining power, and (5) buyer power. All five must be examined force by force, and their collective strength evaluated. One strong force, however, can be sufficient to keep average industry profitability low. Working through the five forces model aids strategy makers in assessing how to insulate the company from the strongest forces, identify attractive arenas for expansion, or alter the competitive conditions so that they offer more favorable prospects for profitability.

3. *What cooperative forces are present in the industry, and how can a company harness them to its advantage?* Interactions among industry participants are not only competitive in nature but cooperative as well. This is particularly the case when complements to the products or services of an industry are important. The Value Net framework assists managers in sizing up the impact of cooperative as well as competitive interactions on their firm.
4. *What factors are driving changes in the industry, and what impact will they have on competitive intensity and industry profitability?* Industry and competitive conditions change because certain forces are acting to create incentives or pressures for change. The first step is to identify the three or four most important drivers of change affecting the industry being analyzed (out of a much longer list of potential drivers). Once an industry's change drivers have been identified, the analytic task becomes one of determining whether they are acting, individually and collectively, to make the industry environment more or less attractive.
5. *What market positions do industry rivals occupy—who is strongly positioned and who is not?* Strategic group mapping is a valuable tool for understanding the similarities, differences, strengths, and weaknesses inherent in the market positions of rival companies. Rivals in the same or nearby strategic groups are close competitors, whereas companies in distant strategic groups usually pose little or no immediate threat. The lesson of strategic group mapping is that some positions on the map are more favorable than others. The profit potential of different strategic groups may not be the same because industry driving forces and competitive forces likely have varying effects on the industry's distinct strategic groups. Moreover, mobility barriers restrict movement between groups in the same way that entry barriers prevent easy entry into attractive industries.
6. *What strategic moves are rivals likely to make next?* Anticipating the actions of rivals can help a company prepare effective countermoves. Using the SOAR Framework for Competitor Analysis is helpful in this regard.
7. *What are the key factors for competitive success?* An industry's key success factors (KSFs) are the particular strategy elements, product attributes, operational approaches, resources, and competitive capabilities that all industry members must have in order to survive and prosper in the industry. For any industry, they can be deduced by answering three basic questions: (1) On what basis do buyers of the industry's product choose between the competing brands of sellers, (2) what resources and competitive capabilities must a company have to be competitively successful, and (3) what shortcomings are almost certain to put a company at a significant competitive disadvantage?
8. *Is the industry outlook conducive to good profitability?* The last step in industry analysis is summing up the results from applying each of the frameworks employed in answering questions 1 to 7: PESTEL, five forces analysis, Value Net, driving forces, strategic group mapping, competitor analysis, and key success factors.

Applying multiple lenses to the question of what the industry outlook looks like offers a more robust and nuanced answer. If the answers from each framework, seen as a whole, reveal that a company's profit prospects in that industry are above-average, then the industry environment is basically attractive *for that company.* What may look like an attractive environment for one company may appear to be unattractive from the perspective of a different company.

Clear, insightful diagnosis of a company's external situation is an essential first step in crafting strategies that are well matched to industry and competitive conditions. To do cutting-edge strategic thinking about the external environment, managers must know what questions to pose and what analytic tools to use in answering these questions. This is why this chapter has concentrated on suggesting the right questions to ask, explaining concepts and analytic approaches, and indicating the kinds of things to look for.

ASSURANCE OF LEARNING EXERCISES

1. Prepare a brief analysis of the organic food industry using the information provided by the Organic Trade Association at **www.ota.com** and the ***Organic Report*** magazine at **theorganicreport.com.** That is, based on the information provided on these websites, draw a five forces diagram for the organic food industry and briefly discuss the nature and strength of each of the five competitive forces. LO 3-2
2. Based on the strategic group map in Illustration Capsule 3.2, which pizza chains are Hungry Howie's closest competitors? With which strategic group does California Pizza Kitchen compete the least, according to this map? Why do you think no Pizza chains are positioned in the area above the Pizza Hut's strategic group? connect LO 3-3
3. The National Restaurant Association publishes an annual industry fact book that can be found at **www.restaurant.org.** Based on information in the latest report, does it appear that macro-environmental factors and the economic characteristics of the industry will present industry participants with attractive opportunities for growth and profitability? Explain. LO 3-1, LO 3-4

EXERCISES FOR SIMULATION PARTICIPANTS

connect

1. Which of the factors listed in Table 3.1 might have the most strategic relevance for your industry? LO 3-1
2. Which of the five competitive forces is creating the strongest competitive pressures for your company? LO 3-2
3. What are the "weapons of competition" that rival companies in your industry can use to gain sales and market share? See Table 3.2 to help you identify the various competitive factors. LO 3-3
4. What are the factors affecting the intensity of rivalry in the industry in which your company is competing? Use Figure 3.4 and the accompanying discussion to help you in pinpointing the specific factors most affecting competitive intensity. Would you characterize the rivalry and jockeying for better market position, increased sales, and market share among the companies in your industry as fierce, very strong, strong, moderate, or relatively weak? Why? LO 3-4

LO 3-2 **5.** Are there any driving forces in the industry in which your company is competing? If so, what impact will these driving forces have? Will they cause competition to be more or less intense? Will they act to boost or squeeze profit margins? List at least two actions your company should consider taking in order to combat any negative impacts of the driving forces.

LO 3-3 **6.** Draw a strategic group map showing the market positions of the companies in your industry. Which companies do you believe are in the most attractive position on the map? Which companies are the most weakly positioned? Which companies do you believe are likely to try to move to a different position on the strategic group map?

LO 3-4 **7.** What do you see as the key factors for being a successful competitor in your industry? List at least three.

LO 3-4 **8.** Does your overall assessment of the industry suggest that industry rivals have sufficiently attractive opportunities for growth and profitability? Explain.

ENDNOTES

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[6] Mary Ellen Gordon and George R. Milne, “Selecting the Dimensions That Define Strategic Groups: A Novel Market-Driven Approach,” *Journal of Managerial Issues* 11, no. 2 (Summer 1999), pp. 213–233.
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